FINPARITY LEARN · FUNDAMENTAL ANALYSIS



Topic 2 · Part 4 | 15-minute lesson | Intermediate

Valuation basics

How analysts estimate what a share is really worth, and how FinParity works out intrinsic value

Educational content, not investment advice

THE BIG IDEA

Price and value are not the same thing

Price

What the market will pay **today**. It changes every second with news and mood.

Intrinsic value

Your estimate of what the business is **really worth**, based on the cash it will earn in future.

If you were buying Ali’s whole biryani business, you wouldn’t ask “what did someone pay yesterday?” You’d ask **“how much will it earn me?”**

BUILDING BLOCK

A rupee today beats a rupee next year



Rs 89

Flip it around: Rs 100 promised **next year** is only worth about Rs 89 **today** (100 ÷ 1.12). This is called **discounting**.

METHOD 1 · DCF

Discounted cash flow in 3 steps

1

Forecast the cash

Estimate the free cash the business will produce each year for the next 5 to 10 years, and after that

2

Discount it to today

Shrink each future year’s cash using a discount rate, just like Rs 100 next year = Rs 89 today

3

Add it up

Total value of the business, minus its debt, divided by the number of shares = value per share

Free cash flow = cash from operations minus cash spent on new plants and equipment. It’s the money truly available to the owners and lenders.

METHOD 1 · DCF

A shortcut: valuing Ali Foods

FORMULA (STEADY GROWTH)

Value = cash flow ÷ (discount rate − growth rate)

Works for a mature business whose cash grows at a steady rate forever. A simplified version of the full DCF.

ALI FOODS LTD

Free cash flow: Rs 150m a year
Discount rate 15%, growth 5%

Rs 150m ÷ (0.15 − 0.05) = **Rs 1,500m**
÷ 100m shares =

Rs 15 per share

Share price: Rs 14. Slightly **below** our value estimate.

METHOD 1 · DCF

Choosing the discount rate

Safe return	+	Extra for risk	=	Required return
12.85%		4.98%		17.8%
10-year government bond		beta 0.83 × 6% premium		EFERT, FinParity model

Why should you accept less than a safe government bond pays? You shouldn’t. A riskier share needs a **higher** rate, which gives a **lower** value.

WATCH OUT

Small changes, big swings

ALI FOODS VALUE PER SHARE



A 2% change moves the value by over 20%

That's why good analysts show a **range** of values, not one magic number.

METHOD 2 · DIVIDEND DISCOUNT MODEL

Valuing a share by its dividends

FORMULA

Value = next year's dividend ÷ (required return − dividend growth)

Best for steady dividend payers, like many PSX fertilizer, oil and gas and bank shares.

EXAMPLE

Next dividend: Rs 10.50
You want 15% a year. Dividends grow 5%.

Rs 10.50 ÷ (0.15 − 0.05) =

Rs 105

METHOD 3 · COMPARING PEERS

What are similar companies worth?

SAME SECTOR, PRETEND NUMBERS

Company X · **P/E 8**



Peer A · **P/E 10**



Peer B · **P/E 11**



Peer C · **P/E 9**



Peers average a P/E of **10**. Company X trades at only **8**.

If X earns Rs 20 per share:
Rs 20 × 10 =

Rs 200

a rough “peer value” per share

SMART HABIT

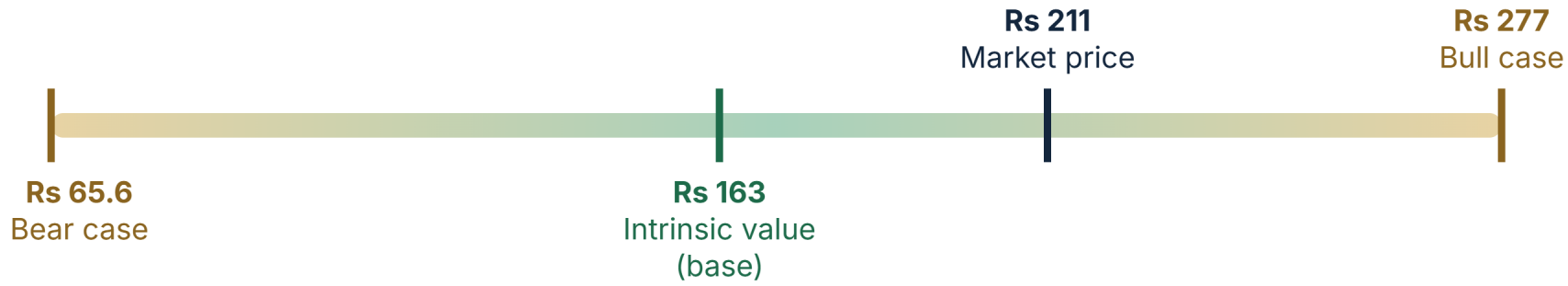
Leave a margin of safety

Every valuation is an **estimate**, and estimates can be wrong. So buy only when the price is **well below** your value. The gap protects you if you were too optimistic.

Your value estimate	**Rs 100**
Price you're willing to pay	**Rs 75**
Margin of safety	**25%**

REAL EXAMPLE

EFERT: price vs FinParity's value range



Dividend model check

Rs 162.8

Peer P/E check

Rs 214.0

FinParity label

Overvalued

FinParity EFERT model, PSX close 11 Nov 2026

BEHIND THE SCENES

How FinParity values a stock

1. Read the history

Seven years of audited consolidated accounts, plus the latest quarters

2. Forecast cash flows

Five years ahead, plus a long-term growth rate

3. Discount them

Using a discount rate built from bond yields and the share's beta

4. Cross-check

Compare with the dividend model and peer P/E values

5. Label it

Compare the value with today's price: undervalued or overvalued

The "intrinsic value" and "overvalued / undervalued" labels you see on FinParity come from this process. They are **estimates**, not promises.

RECAP

Your new vocabulary

Intrinsic value
Your estimate of what a share is really worth

Discounting
Turning future money into today's value

DCF
Value from future free cash flows, discounted to today

Discount rate
The return you require for the risk you take

Peer valuation
Valuing a share using similar companies' ratios

Margin of safety
The gap between value and the price you pay

QUICK QUIZ

4 questions to finish Topic 2!

Q1. At a 10% return, Rs 110 received next year is worth what today?

A) Rs 100 B) Rs 110 C) Rs 121

Q2. Raising the discount rate makes the intrinsic value...

A) Higher B) Lower C) No change

Q3. EPS is Rs 10 and peers trade at a P/E of 8. Rough peer value?

A) Rs 18 B) Rs 80 C) Rs 1.25

Q4. Value is Rs 100 and price is Rs 70. The Rs 30 gap is the...

A) Margin of safety B) Spread C) Dividend

Answers: 1-A · 2-B · 3-B · 4-A. Flip your screen to check!

TOPIC 2 COMPLETE

You can read a company now! Next: getting started as an investor

In Topic 3: open your account, place your first real trade, and understand every fee and tax

Opening an account | Your first trade | Costs and taxes | Staying safe

For education only, not investment advice. Speak to a licensed adviser before investing.