

REFeree'S REVIEW

Program:	Master in Corporate Finance
Student:	Lai Yun
Title of thesis:	Residual Earnings and Book Value in Equity Valuation on China Stock Market

Justification of the topic choice. Accuracy in defining the aim and objectives of the thesis. Justification of the topic choice; accuracy in defining the aim and tasks of the thesis; originality of the topic and the extent to which it was covered; alignment of the thesis' topic, aim and objectives.	5			
Structure and logic of the text flow. Logic of research; full scope of the thesis; alignment of thesis' structural parts, i.e. theoretical and empirical parts.	5			
Quality of analytical approach and quality of offered solution to the research objectives. Adequacy of objectives coverage; ability to formulate and convey the research problem; ability to offer options for its solution; application of the latest trends in relevant research are for the set objectives.	5			
Quality of data gathering and description. Quality of selecting research tools and methods; data validity adequacy; adequacy of used data for chosen research tools and methods; completeness and relevance of the list of references.	5			
Scientific aspect of the thesis. Independent scientific thinking in solving the set problem/objectives; the extent to which the student contributed to selecting and justifying the research model (conceptual and/or quantitative), developing methodology/approach to set objectives.	5			
Practical/applied nature of research. Extent to which the theoretical background is related to the international or Russian managerial practice; development of applied recommendations; justification and interpretation of the empirical/applied results.	5			
Quality of thesis layout. Layout fulfils the requirements of the Regulations for master thesis preparation and defense, correct layout of tables, figures, references.	5			

Each item above is evaluated on the following scale, as applicable: 5 = the thesis meets all the requirements, 4 = the thesis meets almost all the requirements, 3 = a lot of the requirements are not met in the thesis, 2 = the thesis does not meet the requirements.

Additional comments:

The author's choice of a topic to investigate is very timely due to recent regulatory relaxations by Chinese government to allow investment in both mainland and Hong Kong markets and, thus, due to the potential increase in the demand by investors for Chinese markets. Moreover, the author analyzes a unique to Chinese markets trait, the significant price difference of dual listed companies, and how its behavior can be explained by the fundamental value.

The logic of the paper and its structure is strongly aligned with the questions stated in the introduction.

In order to find the best-suited model for the research the author applies four variants of fundamental value models. The justification of the models choice and parameters is elaborately tangled with the discussion of the results of the recent papers and the reference to the pioneering concepts and findings. Moreover, the author uses two statistical programs, EViews and Stata.

The full description of the data used is presented. The data is adjusted for outliers and the proper timing of market value data, before the first quarter results, is taken into account.

One of the strengths of the paper is the contribution to the research of the fundamental value models' applicability and verification: the author has conducted one of few researches about the fundamental value in China and has applied results to the dual-listed companies. In addition, the author scrupulously verifies the most relevant model for each stock exchange by analyzing more than one statistics and applying out-of- and in-sample testing, plus by consistently explaining the process of elimination and economic reasoning. Moreover, the paper stands out by the concise but insightful research of market price differences of dual

listed companies using a multifactor regression with the difference in the fundamental value as one of the variables.

The estimated significant models' coefficients (and their break-down by industries) can be used by investors to calculate the intrinsic value of the investment in Chinese market with moderately high easiness. Given the presence of high language barriers, non transparent environment and restrictive accounting and reporting standards, the application of the results is applicable for the preliminary analysis of Chinese companies. For instance, the author provides the example of model application for recent IPOs.

The layout of the thesis fulfils the requirements.

Master thesis of Lai Yun meets the requirements of the Master in Corporate Finance program, and according to the reviewer's opinion deserves an "excellent (A)" grade, thus the author can be given the desired degree.

Date: June 8, 2017

Referee: Master, Aleksandra Shmitt

Key words: EQUITY VALUATION, RESIDUAL INCOME MODEL, CHINESE STOCK MARKET. 1. Introduction Equity valuation is a big theoretical issue [1-2]. The rapid development and inflation of global stock market has exacerbated the trend of asset bubble, which makes the bubble explanation and research an urgent task of the financial theory research in the new century. Residual income = enterprise earnings - capital cost of enterprise. The residual income model refers to the equity valuation model of measuring stock value through accounting. net asset and residual income. The residual income model can be stated as: stock value = accounting net asset + sum of present value of residual income. China's stock market no longer deserves its reputation as a casino. In addition, the trend of stock price informativeness over the last two decades is highly correlated with that of corporate investment efficiency. China's stock market appears to be aggregating diffuse information and generating useful signals for managers. On the buy side, because of its low correlation with other stock markets and high average returns, China's stock market offers high alpha to diversified global investors who can access it. Yet this high alpha amounts to an inflated cost of equity capital, constraining the i The book value of equity more widely known as shareholder's equity is the amount remaining after all the assets of a company are sold & all the liabilities are paid off. In other words, as suggested by the term itself, it is that value of the asset which reflects in the balance sheet of a company or books of a company. This amount includes common stock, retained earnings and other equity. If we apply it to the formula " Book Value of Equity = Total Assets - Total Liabilities Apple Inc. (Book Value) = US\$ 375.32 billion - US\$ 241.27 billion = US\$ 134.05 billion. For the purpose of analysis, the book value of equity is further divided by a total number of shares to make book value per share. Book value per share represents equity of the firm on per share basis.