Stock Valuation Methods to Calculate Intrinsic Value

Stock Valuation Methods to Calculate Intrinsic Value of a Stock

Stock valuation methods matter, or to put it even more bluntly, it is vital that you know how to value stocks. A good or bad investment ultimately comes down to what price you paid for the stock.

Stock valuation is not easy though. There are many aspects of valuing a stock from a value investing viewpoint. You need to have at least a basic understanding of the business, industry and competitors to make sure your inputs are realistic.

Too often, investors will either project some random number to use as an input for a stock valuation method leading to incorrect stock valuations.

Remember that with any input there is the possibility of “garbage in, garbage out”. Stock valuation is meant to help with your analysis. You should not play around with numbers to get a final intrinsic value calculation to confirm what you want to see.

How to Utilize These Stock Valuation Method Articles

The following articles cover a wide range of stock valuation methods ranging from Discounted Cash Flow to using Benjamin Graham’s formula to value stocks and more advanced stock valuation models such as Earnings Power Value.

I place a lot of focus on how to value stocks and these articles will either be new to you or help you understand how to apply each one.

Click on the titles of the articles to read each one.

Go through it at your own pace because there could be subtopics you find difficult to grasp. If this is the case, leave a comment on the article and I will answer all your questions.

Free PDF Download of How to Value Stocks

This is a PDF for users of the Premium Stock Valuation Spreadsheets that go through many of the stock valuation methods mentioned below. There are screenshots and examples of numerous companies to help you value different types of companies.

7 Stock Valuation Methods used by Old School Value

To start, read this overview of each stock valuation method and how it should be applied. There is a brief description of each valuation model to help you understand the reason for using such a model.

The other how to articles on this page are not just limited to the seven main stock valuation techniques identified from this article.

How to Value a Stock with DCF Method

DCF, short for Discounted Cash Flow, is a stock valuation model based on the cash flows of a company. In other words, the DCF model calculates the stock value of a company by using the estimated future cash flows of the company.

Reverse DCF Stock Valuation Method

The regular DCF model tries to calculate the value of a stock based on future assumptions of growth and cash flow growth. The reverse DCF does the opposite.

It reverse engineers the current price to determine what the expected growth rate is based on the current cash flow.

How to Value a Stock with Benjamin Graham Formula

Benjamin Graham is the father of value investing and came up with a simple rule of thumb formula to value stocks.

Read about the Benjamin Graham formula as a stock valuation method and look at how it is applied.

How to Calculate the Net Net Value of a Stock

This simple asset based calculation is the purest form of stock valuation. It is the lowest value you can expect from a company. The price a company would fetch if it was broken up into pieces and the tangible assets were sold off.

It provides a good idea of what the lowest floor price should be.

The Katsenelson Absolute PE Model

The **absolute PE model** is a variation of the basic PE multiple valuation. Instead of just slapping any PE and deciding whether the company is cheap or not, the absolute PE model reverse engineers the growth rate from the current PE and then makes adjustments to the PE based on the quality of the business.

A simple and effect stock value method to learn and use.

Earnings Power Value (EPV) Stock Valuation

The EPV stock valuation method is an advanced technique which requires a lot of thought and reading. Not the easiest to master, but when done properly, it will help you immensely in better understanding the company and the value of the stock.

Also, the premium **stock valuation spreadsheets** include this valuation model to help you out.

How to Perform an Asset Reproduction Value Analysis

An **asset reproduction value** is the value it will cost to replicate the business. In other words, reproduction value looks at how much it will cost a competitor to purchase the assets required to run a competing company. To calculate the asset reproduction value, the process starts with the book value and each item in the balance sheet is adjusted based on the company strength/weaknesses to come up with a new adjusted book value called “reproduction value”.

Follow the example of how the asset reproduction value for NPK was calculated.

The Altman Z Score used to Detect Bankruptcy

Here is a simple explanation about the **Altman Z score** from Wikipedia.

The Z-score formula may be used to predict the probability that a firm will go into bankruptcy within two years. Z-scores are used to predict corporate defaults and an easy-to-calculate control measure for the financial distress status of companies in academic studies. The Z-score uses multiple corporate income and balance sheet values to measure the financial health of a company.

View the article to learn more about how the Altman Z score formula work.

Piotroski F Score to Determine Quality of a Business

The **Piotroski F Score** is a combination of 9 accounting checks to come up with a final score for the quality of the business. This is not a stock valuation method, but more of a financial model to check a company against. It should not be ignored as the underlying methodology is strongly focuses on the accounting numbers of the company to determine the quality score.

Detect Earnings Manipulation with the Beneish M Score

The **M score** was created by Professor Messod Beneish and in many ways, it is similar to the **Altman Z score**, but optimized to detect earnings manipulation rather than bankruptcy.

The M score is based on a combination of eight different indices which you will find an explanation for from the tutorial. The formula is easy to use and there is a spreadsheet available to download too.

Enjoy these stock valuation methods.