



RESEARCHING A COMPANY

Quickstart lesson 2

Includes: Student lessons . Teacher notes & answers

ASX Schools Sharemarket Game

Quickstart Teacher Notes: RESEARCHING A COMPANY

Researching a company

Introduction:

The aim of this lesson is for students to get an idea of what to look for when choosing companies and gain an awareness of the benefits of investing across different sectors.

We start with a brief look at what share price indices are. Students will learn that companies are included in different indices as well as different industry sectors.

The lesson helps to get students started with researching a company including:

- discovering the company's story;
- looking at the latest numbers; and
- how the share price is trending.



Lesson Design:

Online lesson

Expected Learning Outcomes:

Students will have:

- 1) A basic understanding of an index
- 2) Knowledge of different sectors
- 3) Knowledge of how to use fundamental analysis to find out more about companies
- 4) An understanding of what a dividend is
- 5) A basic understanding of share price trends

Overview of Student Lesson:

Students can complete the worksheet on their own or it can be done as a class.

As a class:

- 1) Hand out the worksheets and read through the introduction on '**ASX indices and sectors**' (pg S.1).
- 2) Students to complete the '**Investigate: Industry sectors**' task - this can be done individually or in groups (pg S.2).

For answers to this exercise:

- To find the ASX codes for indices and descriptions see: <http://www.asx.com.au/products/sector-indices.htm>

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3) **'What to buy'** – this section is about analysing an individual company (pg S.3 – S.5).

Select a company to use as an example as you work through the Story, the Numbers and the Charts.

Ask the class about the **STORY** of this company. This can include how it started; what service or products it offers; the sector it is in and who are its customers?

Write feedback on the board.

For the NUMBERS: Go to the latest company report and see if students can find whether the company is growing, whether costs are rising or falling etc.

The ASX website (in its announcements for that company) and the company website (in the shareholders or media section) will usually include a good presentation that contains this information.

The CHART: What is the trend? How does the trend look in the shorter term compared to the longer term? Often the performance can be quite different when comparing time periods.



4) **Investigate:*** (pg S.6 – S.7) Students (either individually or as a pair) choose a company they are interested in buying. Or you can nominate a company from the Game company list. Students complete the 'Investigate' task.

*This can either be done in class or for homework, depending on time.

Students could present the information they have found to the class or hand it in.



ADDITIONAL RESOURCES

See [Teacher Resources page](http://www.asx.com.au/teacherresources) – www.asx.com.au/teacherresources

- 1) **Audio Visual: Dividends explained** – gives students further information on what dividends are.
- 2) **Sectors list** – this shows how the sectors in the Game fit into the GICS sectors.

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Edition 9: 2017

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Researching a company

Taking a look at all of the companies in the Game, one of your first questions might be, where do I start? How do I decide which companies to buy? That's what this session is all about. First, we will take a look at what an index is and the different types of industries (sectors) that companies belong to. Then you will discover what you can do to learn more about a company and whether it might be a good investment.

ASX INDICES

If you listen to the news, you may have heard the term the All Ords, the All Ordinaries or the ASX 200.

What are they?

They are share price indices.

A share price index measures the performance of a group of companies over a period of time.

For example, the All Ordinaries (All Ords) includes the 500 largest companies listed on the ASX.

What does the ASX 200 measure?

The 200 largest companies listed on the ASX. These are measured on the basis of market capitalisation. (Market capitalisation is the total number of shares on issue multiplied by the market price).

Don't think that the biggest companies are always the ones that cost the most because some companies issue more shares than others. Those companies with the highest market capitalisation are included in the count.

Most of the companies in the Game are from the S&P/ASX 200.



Who runs the index?

You will often see these indices with S&P at the front, for example, S&P/ASX 200. The Standard & Poor's Index Services runs the index business previously controlled by ASX (excluding the All Ordinaries), these include the S&P/ASX 20, 50, 100, 200, 300.

INDUSTRY SECTORS

Alongside the indices, the Australian market is also divided into various industry groupings or sectors. The index manager, Standard & Poor's, uses a Global Industry Classification Structure when putting these together... or GICS for short.

If you know about sectors, it can help you when it comes to deciding which shares to buy. Often companies in the same sector will move in a similar direction because they are affected by the same things. This can mean that if you invest in only one sector, and it does badly, your investments are really going to suffer. But if you invest across a few sectors and the others are performing OK, you won't be so badly affected. So choose companies from a few different sectors to help reduce your risk.

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Investigate: Industry sectors

To find out more about the ASX 200 GICS industry sectors complete the table below:

- 1) What is the ASX code for each sector?
- 2) In the description column write down an explanation of the sector and the types of industries that are included in the sector.
- 3) Add 3 companies in each sector that are in the Game.

For additional help go to: <http://www.asx.com.au/products/sector-indices.htm>

ASX Code	Sector	Description / sub-sectors	Companies in Sector
	Energy		
	Materials		
	Financials		
	Health care		
	Industrials		
	Consumer discretionary		
	Consumer staples		
	Information technology		
	Telecom		
	Utilities		

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What to buy?



To choose which companies to buy in the Game, you will need to find out more about each company:

- **the story** – what the company does and where it is heading;
- **the numbers** – how the company is going financially; plus its
- **performance in the sharemarket** – is it gaining in price or decreasing? This will give you an idea as to whether or not the company is a good investment.

This is often called fundamental analysis and is all about looking at various factors that might affect a company's earnings and growth. So let's take a look at finding out more about a company.

(Image source: Coca-Cola Amatil website, Commonwealth Bank website, The Reject Shop website)

THE COMPANY'S STORY

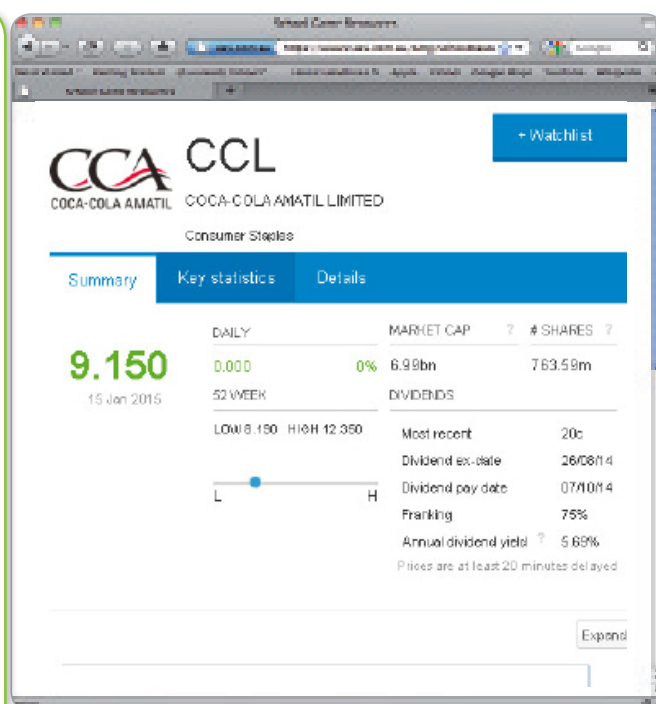
To get the story – the best place to go is the ASX research page: <http://www.asx.com.au/prices/company-information.htm>

Add the company code that you want to research. This will take you to that company's information page on the ASX.

Here you will find a price history chart, company announcements plus there is often a link to the company's own web page. Their website will give you further information including an introduction to the company, its brands, history and financial reports.

To discover more of the story you could look for:

- What sector is the company in?
- What does the company do?
- What does it sell?
- How long has it been in business?
- Who are its customers?
- Who are its competitors?
- Have they made any important announcements recently?



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The numbers

To find out more about the numbers – every year a company puts out an annual report. Now this can be a little overwhelming; however, you will often find that the company will have a media release or presentation that gives you an overview of their financials, which makes it a little easier.

Some questions you can ask are:

1) **Is the company growing?** (Look in profits section)

Have the company's earnings increased?

Are they expected to continue to increase?

Has the company been able to grow their profits?

Have they made any future forecasts?

2) **Have costs been rising or falling?** (Look in expenses)

If they have gone up, is there something unusual that has happened, for example, a takeover of another company.


Costs might go up as a company grows. However, it is better if the profits are growing also.

3) **Does it have a lot of debt?** (Look for borrowings and interest bearing liabilities.)

Has the debt been rising significantly over the years? Debt is not necessarily bad if the company is growing fast and needs to borrow to expand but you need to find out why they have so much debt.

4) **Are they paying dividends to shareholders?** (Look in dividends)

A dividend is where a company gives part of its profit to shareholders – usually expressed as a number of cents per share.

Balance Sheet		
for the year ended 30 June 2016		
		
ASSETS	2015 \$	2016 \$
Cash and cash equivalents	345,363	130,069
Receivables	100,062	236,000
Inventories	207,700	300,110
Total current assets	653,125	666,179
Property, plant and equipment	150,008	181,475
Total Non-current assets	150,008	181,475
Total assets	803,133	847,654
LIABILITIES		
Payables	189,436	279,521
Employee entitlements	57,983	108,270
Current tax liability	13,289	2,624
Interest bearing liabilities	20,554	25,442
Total current liabilities	280,262	423,857
Employee entitlements	65,824	51,857
Payables	396,574	336,918
Interest bearing liabilities	18,123	23,166
Total non-current liabilities	480,521	411,941
Total liabilities	760,783	835,798
Net assets	42,350	11,856
EQUITIES		
Contributed equity	10,050	10,050
Retained earnings	32,300	1,806
Total equity	42,350	11,856



To summarise, you are looking for companies that are growing. Companies that are not holding a lot of debt and if they are, then question why. Also check whether a regular dividend is being paid to shareholders.

The managing director's report will give you a good overview of the company. You can find this on the ASX Company Announcements page: <http://www.asx.com.au/asx/statistics/announcements.do> or on the company's web page.

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Performance: What do the charts say?

When reviewing a company's performance it is also helpful to take a look at the company chart (see bottom of the company research page). This will show you how well the company's share price is trending.

What is a trend?

A trend shows the direction that the price is moving, this will be either up, down or sideways.



An **uptrend** is when you get a higher high and a higher low, in other words the line is moving upwards.



A **downtrend** is when you have lower lows and lower highs, so the line is moving downwards.



A **sideways trend** means prices are trading in a range and not moving out of that range, in other words it's neither going up or down significantly.

One of your main aims in investing is to buy shares and then sell at a higher price. So to make a profit you want the share price to be trending up. This means you will be looking for companies that have the possibility of increasing in value.

Of course, an uptrend does not guarantee that it will continue to go up. Sometimes the uptrend stops and sometimes shares that have fallen, bounce back. However, a steady uptrend is often a good sign.

When looking at a trend, you should also be aware of the time period – if you look at a chart covering 3 month period you may see that the trend is up. However, if you look at the trend over a year you might find that the overall trend is down. As the Game is only short term, it may help to use the 3 month charts to see the short term trend.



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Investigate: Analysing a company

Choose a company from the Game that you are interested in. Find out more about the story, numbers and performance of this company. See if you can discover the following:

The story:

1) What sector is the company in?

2) What does the company do?

3) What does it sell?

4) How long has it been in business?

5) Who are its customers and who are its competitors?

6) Have there been any interesting announcements lately that might be good or bad for this company?

The numbers:

7) Is the company growing?

8) Are their expenses increasing more than their profits – have they said why?

9) Has the debt increased or decreased?

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Investigate: (CONTINUED)

10) Are dividends paid regularly?

Share price performance

11) How has the share price for this company been trending – in what direction?

Look at a 1 year chart and a 3 month chart for this company – is the trend the same?

12) Do you think the trend could go higher / lower? Why?

13) Would you buy this company? Why / why not?

