Chapter 12

“Designing Optimal Valuation Model of Bank Stocks”: Empirical Evidence for Iran Banking Systems

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ABSTRACT

The growth and diversification of investment and management property have development requirements, so achieving first place economically requires transfer of share of ownership from government to private sector. One of the major requirements of these operations is pricing of shares through stock exchange. The accurate and transparent assessment in assignment of stock value has great importance. So, it has been tried to design optimal model and then determine the bank stock value in public offerings. In this regard, the review of conventional models of stock valuation has been analyzed and the effect of functional variables and balance sheet on the value of bank stocks is investigated. In the statistical stage, the relevant tests have been accepted for 16 banks in Tehran Stock Exchange and Iranian OTC market on a three-year timeframe. The results of research lead to design and specify the optimal model for evaluating of Bank stock.

INTRODUCTION

The ownership structure of banks and their fundamental role in the national economy is a key factor in economic and financial development process. In Iran, some of the institutions as well as public organizations governmental and nongovernmental have a considerable stock of these banks and institutions, non-bank credit that may be based on Article 105 and 106 of Article 44 of the constitution are compelled to transfer the bulk of these stocks. Studies of Pricing Initial Public Offerings are reported the existence of two features: First of all stocks in initial public offering are usually under intrinsic value of pricing: Second, mentioned stock has poor performance of the stock in the long term than other companies. One of the most common methods of privatization agencies is their ceding of shares through the provision of the Stock Exchange.
Intrinsic value analysis and comparison with the market price of the share is very important for analysts. The main purpose of this comparison is to recognize whether now the target stock is cheap (below the real price) or expensive (over the real price), if a share is cheap, the market has not been found the impact of fundamental factors that is determined a higher price than the market price for shares.

Analysis of intrinsic value is accompanied with limits ranging from a variety of risks in the pricing of stock. The intrinsic value of the companies’ shares depends on how the continued growth, but the future is always faced with uncertainty and cannot be predicted desirable. Due to the ambiguity of the question arises: Is it possible to determine the optimal model for the valuation of bank stocks?

In this article two topics are examined: 1. Determine effective variables and their relation to the valuation of bank stocks 2: optimization model valuation of bank stocks in initial public offering by relying variables inherent values are calculated using different valuation models and accounting variables. There are currently 20 private banks and non-bank credit institution in exchange and OTC listed and some are awaiting the arrival mentioned markets. Assignment of this category shares only in 2013 has been allocated more than 300 trillion riyals and more than %20 of the market value of the Iranian capital. The results help to investors to know affecting factors the determination of prices of bank shares in the initial public offering.

*Figure 1. Segmentation of a variety of valuation methods*