SPECULATING STRATEGY: Effect of Changing TARGET PRICE on ACTUAL PRICE

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Industry Research, Fundamental Analysis and Valuation Modeling by Equity Research Analysts

Ultimate Goal of Stock Valuation: Target Price
->An Estimated Price Given by Them

Why Target Price Matters?

Reference For Investment Decisions, esp. Large Traders

E.g.: Fund House, Institutional Investors
-> Large Market Power

Recommendations Derived

Target Price > Current Price **Buy!**

Sell! Target Price < Current Price

Research Questions

- Does a Change in Target Price Affects Actual Stock Price?
- Strong Relationship between Target Price and Actual Price?
- Are those Predictions Accurate?

Research Setup

Define Variables:

LP_t: Last Price at time t

TP_t: Consensus Target Price at time t

Vector Autoregression

$$LP_t = \alpha_{LP} + \beta_1 LP_{t-1} + \beta_2 TP_{t-1} + \varepsilon_t$$

$$TP_t = \alpha_{TP} + \beta_3 TP_{t-1} + \beta_4 LP_{t-1} + \varepsilon_t$$

Log Transformation + Total Differentiation:

$$P(LP_t) = P(\alpha_{LP}) + \beta_1 P(LP_{t-1}) + \beta_2 P(TP_{t-1}) + P(\varepsilon_{LP,t})$$

$$P(TP_t) = P(\alpha_{TP}) + \beta_3 P(TP_{t-1}) + \beta_4 P(LP_{t-1}) + P(\varepsilon_{TP,t})$$

P(k) represents the precentage change in k

β: Effet of Percentage Change in LP/TP at t-1 on Left-hand Side Variable

Data Selection and Processing

Selected Stocks (Name, Code):

CKH HOLDINGS	0001	TENCENT	0700
CLP HOLDINGS	0002	PETROCHINA	0857
HK & CHINA GAS	0003	CNOOC	0883
HSBC HOLDING	0005	CCB	0939
POWER ASSETS	0006	CHINA MOBILE	0941
HANG SENG BANK	0011	ICBC	1398
SHK PROPERTIES	0016	PING AN	2318
SINOPEC CORP	0386	BOCHK	2388
HKEX	0388	CHINA LIFE	2628
CHINA OVERSEAS	0688	BOC	3988

Range of Data: 1 Jan 2009 - 31 December 2018
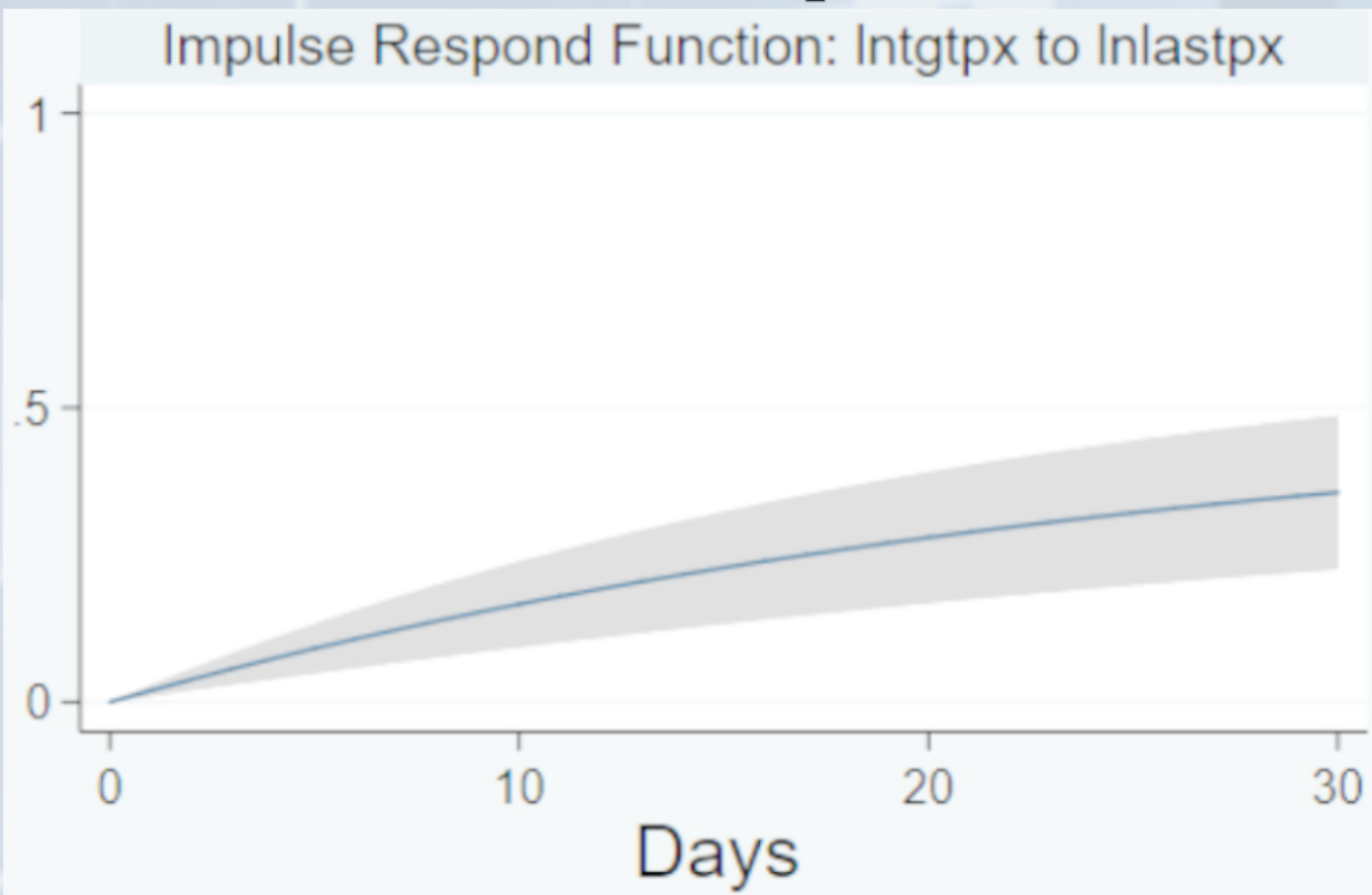
Stock Selection Criteria:

Large Share in HSI, Remained in HSI for the period

Data Source: Bloomberg Terminal

Results

Goal: Test the Signifiance of β_2

Only 4 out of 20 Showed a Significant β_2:

0006 (p = 0.003)

0688 (p = 0.000)

0883 (p = 0.009)

2318 (p = 0.013)

Impulse Respond Function: lntgtpx to lnlastpx

Discussions

Change in target price ➡ Change in current price?

Significance ➡ Accuracy? *Not necessarily!*

Limitations: Data Coverage

Specific Analysts' Accuracies?

Interested?

Check Out Financial News Updates to Know the Target Prices!