Valuation of Shares

What is Valuation of Shares?

Valuation of shares is the process of knowing the value of company's shares. Share valuation is done based on quantitative techniques and share value will vary depending on the market demand and supply. The share price of the listed companies which are traded publicly can be known easily. But w.r.t private companies whose shares are not publicly traded, valuation of shares is challenging.

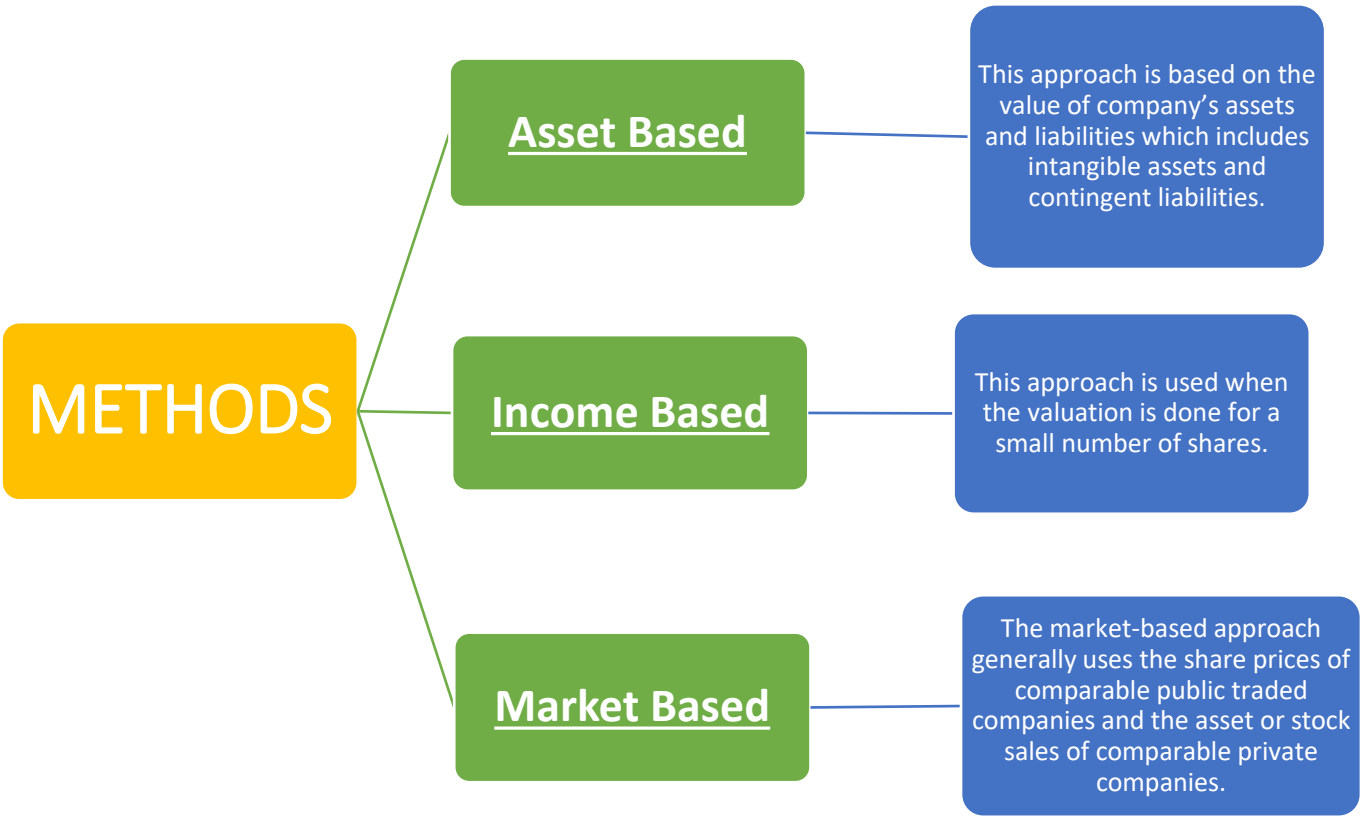
Need or Purpose?

Shares of private companies in any case will not be quoted on the stock exchange. If shares have to be exchanged of a private company then the value of such shares will have to be ascertained. When a loan advanced on the security of shares, it becomes necessary to know the value of shares on the basis of which loan has been advanced. When the shares are given in a company as gift it may be necessary for the purpose of assessing gift tax, to place a value on the shares. Valuation of shares is imperative in cases of merger, acquisition, reconstruction, amalgamation, etc. When the shares of a company have to converted or company is implementing an Employee Stock Option Plan (ESOP), such shares have to be valued.

Valuation of Ordinary Shares

The act of deciding the most fitting strategy will rely upon the quantity of shares changing hands, and the aim of the business. When an organisation is unlisted, there is no distributed market price for shares. The value of the normal shares should, therefore, be calculated with other accessible data using formulae, appraisals and discernment. Accordingly, the qualities calculated may be subjective and, practically speaking, are subject to transaction before a final price is agreed.

What are Methods of Share Valuation?



How to Choose the Best Stock Valuation Method

Each business has different types of qualities, strengths and rules of valuation. Therefore, it is better to choose the method on the basis of the information about the company that is readily available to you for the purpose of valuation.
For example, The asset approach can be relevant to manufacturers, distributors, etc.. Why?

This is because these businesses often use a huge volume of capital assets, the value of which can easily influence the intrinsic value of the shares.

Tax Implications

Tax valuations are usually triggered in fund-raising and when shares are bought/sold below the FMV. In the majority of transactions for going concerns and profitable businesses, this does not apply as consideration is usually well above FMV. However in many businesses it may either be below FMV or close enough to FMV to trigger taxation. FMV also changes depending on the balance sheet date and may therefore cause a shock post-transaction if significant movements have occurred.

All in all, it is best to conduct tax valuations while contemplating the transaction or immediately post-transaction, to understand what the tax implications are.

Conclusion

Whether you are a trader or a long-term investor, the practice of share valuation is vital to your knowledge and success. Thus, traders can use various methods of share valuation to compare stocks of different companies. Long-term investors can evaluate their future prospects via the various methods and approaches of it. Therefore, it is essential to update yourself with the best methods of share valuation as per your requirements and goals.