A South African Perspective on the Market-based Approach to 
Valuations: Why are Company Multiples So Popular?

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Abstract

The proper distinction between company and equity multiples is often discarded by analysts when employing a market approach for equity valuation purposes. This phenomenon can partly be attributed to the fact that there is scant empirical guidance on the proper construction of company and equity multiples in emerging markets. In addition, the design of the empirical studies contained in the emerging market literature is typically biased in favour of company multiples. However, the focus in this paper is on the valuation precision differential between company and equity multiples from an equity-based perspective. Therefore, this study’s empirical design is anchored on equity-based value drivers. To this end, the valuation precision of the company and equity multiples of 300 listed South African companies is tested for the period between 2001 and 2010.