ABSTRACT

Certain Aspects of Shareholders’ Value in Hungary

Financial analysts must recognize the characteristics prevalent in Hungary when rating the asset-based and income-based shareholders’ value of an enterprise. My paper demonstrates that the concept of shareholders’ capital as used in the generally available Hungarian accounting methodology measures shareholders’ value with a larger spread (i.e. less exactly) than the shareholders’ capital concept used in US GAAP, and due to the fact that it fails to reckon with the cost of capital, it tends to overvalue it. Due to the difficulty of allocating general and financing costs to assets and the fact that off-book assets also participate in the generation of income, the asset valuation based approach to shareholders’ value is incapable of determining the actual shareholders’ value. The widespread practical approach that quantifies the shareholders’ value of a continuously operating enterprise on this basis is incorrect and fallacious. Income-based valuation is the method that is capable of obtaining the actual shareholders’ value. In Hungary, however, the income-based valuation methodology also needs adjustment. The internationally widespread income-based enterprise valuation methodology has to be supplemented with the recognition of the taxation rules reflecting value maximizing dividend policies in Hungary.