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"An Introduction to Valuation" by Aswath Damodaran is an excellent doc for learning more about Valuation, differences between Intrinsic Value (DCF) and Relative Valuations (their basics, Pros/Cons, when they work better...).

cc: @dmuthuk

Some of my fav slides from the presentation.

✔■Misconceptions about and approaches to Valuation.

Misconceptions about Valuation

- Myth 1: A valuation is an objective search for "true" value
  - Truth 1.1: All valuations are biased. The only questions are "how much" and in which direction.
  - Truth 1.2: The direction and magnitude of the bias in your valuation is directly proportional to who pays you and how much you are paid.
- Myth 2.: A good valuation provides a precise estimate of value
  - Truth 2.1: There are no precise valuations.
  - Truth 2.2: The payoff to valuation is greatest when valuation is least precise.
- Myth 3: . The more quantitative a model, the better the valuation
  - Truth 3.1: One's understanding of a valuation model is inversely proportional to the number of inputs required for the model.
  - Truth 3.2: Simpler valuation models do much better than complex ones.

Approaches to Valuation

- **Intrinsic valuation**, relates the value of an asset to its intrinsic characteristics: its capacity to generate cash flows and the risk in the cash flows. In it's most common form, intrinsic value is computed with a discounted cash flow valuation, with the value of an asset being the present value of expected future cashflows on that asset.
- **Relative valuation**, estimates the value of an asset by looking at the pricing of 'comparable' assets relative to a common variable like earnings, cashflows, book value or sales.
- **Contingent claim valuation**, uses option pricing models to measure the value of assets that share option characteristics.

Basis for all valuation approaches

- The use of valuation models in investment decisions (i.e., in decisions on which assets are under valued and which are over valued) are based upon
  - a perception that markets are inefficient and make mistakes in assessing value
  - an assumption about how and when these inefficiencies will get corrected
- In an efficient market, the market price is the best estimate of value. The purpose of any valuation model is then the justification of this value.