

INDEPENDENT POWER PLANT VALUATION USING DISCOUNTED CASH FLOW TECHNIQUE

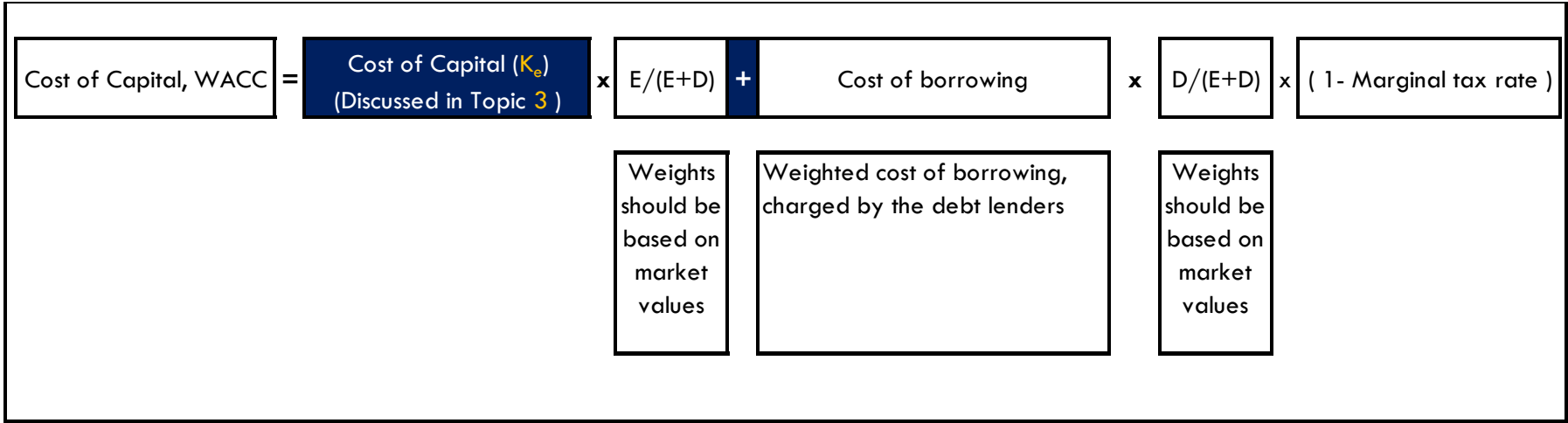
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TOPIC 4 – DETERMINATION OF WEIGHTED AVERAGE COST OF CAPITAL, WACC

1. INTRODUCTION AND OBJECTIVE

This article attempts to discuss on some basic principles that should be considered when determining the WACC, which is the discount rate used when using the FCFF method (discussed in Topic 2).

Method	Explanation
Free Cash Flow to Firm (FCFF)	<p>FCFF derives the enterprise value attributable to the stakeholders which comprise of both the equity and debt providers of a proposed power plant under evaluation.</p> <p>The Internal Rate of Return (IRR), as determined using the net cash flow from FCFF is known as the project IRR.</p>



THANKS FOR READING.

This article is prepared by Ong Tee Chin, CFA, FRM, and represents the view of the author. He can be contacted at ong@atlantiscapital.org for any further enquiries on the contents of this article.

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