Fundamentals Analysis and Investment Decision-making for Six Companies among Three Industries

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Abstract. Investors can significantly increase their funds by choosing excellent stocks, but choosing a good stock is a problem that investors face. This article collected data on six companies' risks, profitability, market ratios from three industries through Yahoo Finance for in-depth analysis. Specifically, this study conducted an in-depth analysis of the investment decisions of several categories of investors through these data. The results indicate that BP has attracted value investors, income investors, PEG investors, index investors, DCF investors, and stock repurchases. Shell has attracted value investors, income investors, PEG investors, index investors, ratio investors, DCF investors, insider investors, and stock repurchases. CVS Health has attracted index investors, DCF investors, insider investors, and stock repurchases. McKesson has attracted PEG investors, index investors, DCF investors, momentum investors, insider investors, and stock repurchases. Wal Mart attracts index investors, DCF investors, momentum investors, insider investors and stock repurchases. Marriott International attracts DCF investors, momentum investors, insider investors, and stock repurchases.

Keywords: Fundamentals Analysis, Decision-making, Investment.

1. Introduction

Investment can bring many benefits. Firstly, investment can reduce risk by diversifying funds across different asset classes and industries, thereby reducing the risk of a single investment. Secondly, investment can increase income, and by selecting assets with growth potential, higher returns can be achieved. In addition, investment can also meet consumer demand, and by investing in financial products such as stocks and funds, higher dividends or interest income can be obtained, thereby meeting daily living expenses. At the same time, investment can also increase employment opportunities. By investing in startups or small businesses, it can support local economic development and create job opportunities. Finally, investment can promote economic growth, and by investing in industries and enterprises with potential, it can promote economic development and enhance national competitiveness. Therefore, this study selected 6 representative companies from three industries and explored the investment decisions of several types of investors through the collection and analysis of fundamental data [1-5].

2. Profiles of the Selected Companies

There are six companies chosen for the survey, ranged from healthcare industry to consumer discretionary and energy industry. First, CVS Health Corporation is a healthcare company in America. It has a mature retail pharmacy chain and lots of locations, over 9,674 in 2022. The company is the largest healthcare company in the world, which was founded in 1963 in Lowell, Massachusetts. CVS always take on the leadership in healthcare industry with good services and, plenty health and beauty products to provide a healthier and more convenient platforms for patients. And the McKesson Corporation is the second healthcare company, which is a provider of diversified healthcare services, engaged in advancing healthcare outcomes for patients everywhere. Its subsidiary operations distribute several countries, such as US, Canada, UK, Germany, Norway and Ireland. McKesson is headquartered in Irving, Texas and employed 51000 employees in 2023. The company provides approximately one-third of the drugs to North America. The company aims to bring good news to cancer patients and provide more effective operational technology for pharmacies, health systems, and clinics. Wal Mart is a world chain enterprise founded in the United States, ranking first among Fortune Global 500 enterprises for many consecutive years. Marriott International Group was established in 1927 and is headquartered in Washington, D.C., United States. Marriott International Group has an annual revenue of nearly $20 billion and is one of the most outstanding representatives of the hotel industry. BP and Shell are both long-standing companies and the world's largest multinational oil and gas companies. The British Petroleum Company was founded in 1909 and renamed as the British Petroleum Company in 1954. Royal Dutch Shell was formed by the merger of Royal Dutch Shell and Shell, and was renamed Shell on December 20, 2021. The company has five core businesses, including exploration and production, natural gas and electricity, coal gasification, chemicals, and renewable energy.

3. Risk

The financial definition of risk emphasizes the uncertainty in investment and trading, where the results of investment or trading may not be predictable or exceed expectations [6-7]. This uncertainty may cause investors to bear losses and is therefore considered a risk. In this paper, four indicators are chosen as the representative of risk, i.e., market cap, beta, total debt ratio and current ratio. Market cap is the total value of a company's shares of stock. There are two types to assess a company's size, large or small. First one is large-cap companies, whose market value is over $15 billion. It means they more likely to have mature functioning and managing system, or steady earning. Generally, they are the leaders of their industry and people are more familiar with their companies' name. Correspondingly, investors will render less risk by sacrificing the big growth potential. While a company's market value is lower than $15 billion is small-cap. They are new and potential companies, which more likely establish in few years with high risk. Both CVS (95.652B), McKesson Corporation (54.597B), Walmart (430.61B), Marriott International (60.55B), BP (105.86B) and SHEL (203.949B) are all larger than $15 billion, so they are large cap. Beta is a measure of the volatility of a security compared to the market as a whole. If the Beta is above 1, then it has below average market risk. If the Beta is above 1, then it has above average market risk. Higher Beta means higher risk, higher stock market risk. CVS, McKesson Corporation, Walmart, BP and SHEL's beta are similar, respectively 0.6, 0.61, 0.5, 0.65 and 0.67. All of them are below 1, so it has below average market risk. But Marriott International's Beta is 1.59, which is higher than 1. Thus, Marriott International will face more turbulent market. Debt ratio is the ratio of total debt divided by total assets. It is an indicator of a company's leverage. A high debt ratio means a company is highly leveraged, and they are incapable to pay its debts back. For example, CVS (106.84%), Walmart (83.13%), Marriott International (8343.57%), BP's debt ratio is all higher than 60%, which are considered high, especially Marriott International. It is because SHEL's debt ratio is lower than 60% and also higher than 40%, it indicates that its assets and debts are almost equavilent. However, like McKesson Corporation (-42.83%), these kind of companies with such low or even negative debt ratio, don't rely on the borrowing to sustain its development. Current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year, dividing current assets by current liabilities. It is an evaluation parameter for investors, helping them to see how these companies can to what extent, using their current assets to repay their liabilities. Both CVS, McKesson Corporation, Walmart and Marriott International's current ratio are 0.92, 0.92, 0.83, 0.43 respectively, which is lower than average current ratio, so they have higher possibility not able to meet its short-term obligations and due. Moreover, BP (1.17) and SHEL (1.46)'s current ratio are in the range of good current ratio, so they are more capablec to pay their debts. Details are shown in the following Table 1.

Table 1. Indicators of risk for the six companies

	CVS Health	McKesson Corporation	Walmart Inc.	Marriott International	BP	SHEL
Market Cap	95.652B	54.587B	430.61B	60.55B	105.86B	203.949B
Beta	0.6	0.61	0.5	1.59	0.65	0.67
Total Debt Ratio	106.84%	-42.83%	83.13%	8343.57%	65.615%	43.54%
Current Ratio	0.92	0.92	0.83	0.46	1.17	1.46

4. Profitability

Profitability reflects the profitability level of the enterprise [8-9]. In this paper, Total Assets Turnover, Profit Margin, ROA and ROE are selected to represent the profitability. Total Asset Turnover refers to the turnover ratio or turnover rate of a company's inventory. Profit margin is a financial metric that measures the profit a company generates in relation to its revenue. ROA = (Net Income / Average Total Assets) * 100. The main role of ROA is to analyze how a company uses its assets to generate profits. A higher ROA indicates that the company's assets are utilized more efficiently, while a lower ROA indicates that assets are utilized less efficiently. ROE measures a company's profitability by comparing its net income to its shareholder equity. ROE = Net Income / Shareholder Equity.

The Total Assets Turnover of CVS and McKessonis 1.19% and 1.29%, indicates that the company’s ire operating with a relatively low level of profitability. Both companies performed well in the ROA, but did not stand out. McKesson Corporation in ROE is as high as 33.00%, indicates that the company is effectively using its shareholders' investments to generate profits. The people who invested in this stock at the same time most likely made a profit.

Marriott International had a lower turnover rate than Walmart. Marriott International's Profit Margin of 47.44% is the highest among the six stocks. According to Statista, the average Profit margin of American hotels is 25%, which is far higher than the average by comparing the profit margin of Marriott International, which is margin47.44%. It shows that the company occupies a strong competitive position in the market. The ROE also exceeded 200%, indicating that the company made a large profit through shareholder investment, and compared with the average of other American hotel companies, Marriott International's performance is good.

According to the ROA analysis data, BP is -0.86%, and SHEL is as high as 9.55%, which clearly reflects the excellent performance of SHEL. It suggests that the company is effectively managing its resources and utilizing them to generate higher returns. On the other hand, BP company ROA implies that the company is less efficient in generating profits from its assets. In terms of ROE, SHEL performed better than 21.97% and -3% of BP. Details are shown in the following Table 2.

Table 2. Indicators of profitability for the six companies

	CVS Health	McKesson Corporation	Walmart Inc.	Marriott International	BP	SHEL
Total Assets Turnover	1.41B	1.11B	244.86B	24.82B	248.32B	358.59B
Profit Margin	1.19%	1.29%	1.82%	47.44%	10.59%	11.43%
ROA	3.96%	4.43%	0.78%	3.05%	-0.86%	9.55%
ROE	5.42%	33.00%	2.24%	213.84%	-3.00%	21.97%

5. Market Ratio

Market ratio is a key indicator for understanding a company's performance and expected stock returns, usually reflected by indicators such as P/E ratio, P/B ratio, and dividend yield. Specifically, the P/E ratio is the ratio of stock price to earnings per share; The P/B ratio is equal to the stock price divided by the book value per share; The dividend yield is the ratio of the dividend value received during this period to the purchase price; The PEG ratio is the price/earnings per share of a company divided by the company's growth rate or PE/G. The PEG investment valuation return indicator is an investment strategy based on the growth rate of enterprise returns and P/E ratio. This indicator can help investors determine whether a company's stock is undervalued or overvalued. DCF is the discounted cash flow or the present value of each cash flow. If the discount value is higher than the current price of the asset, it is considered that the asset should be purchased in order to make a profit in the future [10].

According to the value of these six companies, the PE ratios of BP and Shell are relatively low, only 4.49 and 5.04, This shows that these two stocks are undervalued now, so there may be a lot of room for growth in the later period. There is not much difference among these six stocks in Dividend Yield, from 0.06 to 3.57. The PEG of five stocks is close to 1, except WMT. Also, SHEL has a PEG of 0,06, it is quite low. Details are shown in the following Table 3.

Table 3. Indicators of profitability for the six companies

	CVS Health	McKesson Corporation	Walmart Inc.	Marriott International	BP	SHEL
P/E ratio	23.67	16.36	38.53	23.4	4.49	5.04
P/B ratio	1.34	N/A	5.95	432.52	1.48	1.09
Dividend Yield	2.99%	0.52%	1.41%	0.72%	4.12%	3.65%
PEG ratio	1.26	0.43	3.57	1.27	0.1	0.06
50-Day Moving Average	75	403	153.7	181.66	36.81	61.76
200-Day Moving Average	82.46	377.25	146.88	167.74	36.77	59.71
DCF	122.51	765.88	199.89	130.8	666.31	6014.04
Insider buying	498,624	224,950	783338	126774	0	482896.22
Stock buyback	2.018B	118.00M	686.00M	2.6B	2.5B	4B

6. Asset Selection Results

Nowadays, different types of investments coexist in the stock market, with 9 types of investors being the most unique. First, it is Value Investors. They are actively ferret out stocks that are underestimated by market, and correspondingly, they have long-term horizon and will face lower volatility than PEG Investors. PEG Investors are looking for companies that are expected to grow at a beverage rate. And these companies always are smaller, younger companies who have higher potential to gain a large number of capitals in the future. Next, Income Investor favor get stable cash flow from investing, instead of selling or buying to use the time difference to make a profit. Other investors grouped based on their investment style, is Index Investors. They use a passive investment strategy that searchs for replicate the returns of a benchmark index, such as S&P 500 and Beta. Ratio Analysists judge a company’s liquidity, profitability through study their ROA from financial statements. DCF Investors concern about a company’s growth rate. They try to find the value of stocks and assess its expected cash flows after certain times. Momentum investors want to take advantages of the market trend to create profits. Insider trading refers to stocks tradings inside a public company. Stock buyback refers to the act of a listed company or its controlling shareholders purchasing issued or unissued shares in cash, in order to reduce the company's registered capital, enhance its control, or provide equity incentives.

Value Investors will choose BP and SHEL because the PE value is not higher than 10, which proves that these two stocks are undervaluation. And it has the potential for earnings growth and attractive return on investment. PEG investors will invest BP, SHEL and McKesson Corporation because their PEG performance is good. For example, SHEL is 0.06 is very low, so PEG investors will have a high probability of liking this stock. The high dividend and yield of BP and SHEL stocks may indicate a more attractive investment opportunity for income investors. Index may likely to choose BP and Shell for investment. The only company that Indexes Investors won’t invest is Marriott

International with such low Beta index 0.6. However, the other five companies' Beta all larger than 1, thus, Index Investors will buy them. Among the six companies, SHEL has the largest ROA (9.55%). So, Ratio Analysists will favor to invest it. All of the six companies will be invested by DCF Investors because their DCF are larger than 0. Momentum Investors need the results calculated from 50-Day Moving Average divided by 200-Day Moving Average and estimate its potential values. Except CVS, Momentum Investors will buy the other five companies. Insider Investors will invest SHEL, CVS, McKesson Corporation, Walmart Inc and Marriott International. Since all of them have stock buyback trading within six months, so stock buyback investors will buy them. Details are shown in the following Table 4.

Table 4. Asset selection results

9 Types of Investors	BP	SHEL	CVS	MCK	WMT	MAR
Value Investor	YES	YES				
Income Investor	YES	YES				
PEG Investor	YES	YES		YES		
Index Investor	YES	YES	YES	YES	YES	
Ratio Analysist		YES				
DCF Investor	YES	YES	YES	YES	YES	YES
Momentum Investor				YES	YES	YES
Insider Investor		YES	YES	YES	YES	YES
Stock Buyback	YES	YES	YES	YES	YES	YES

7. Conclusion

This article collected financial data from six representative companies in three industries. Based on this data, this study conducted an in-depth analysis of the investment decisions of nine categories of investors, providing necessary reference for actual investment activities. However, there are still some shortcomings in this study, and collecting more financial indicators for further in-depth analysis of these companies is worth further research in the future.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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