Analysis of Enterprise Value Investment Strategy

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Abstract. As the stock market continues to develop and improve, people gradually realize that the stock market is also a good investment and financial management choice. Compared with insurance and funds, it has a high rate of return, attracting people to join. Benjamin Graham's value investing is one of the common investment methods, laying the foundation for the in-depth fundamental valuation used by all market participants in stock analysis. Allowing investors to obtain high returns using simple data analysis methods. This article analyzes two popular stocks in the beverage market, Starbucks, and PepsiCo, to select stocks worth investing in. The main research method of this article uses the Price/Earnings-to-Growth (PEG) Ratio, the Profitability Ratio (GP/A) and the Gross Margin Ratio in value investing to compare the strengths and weaknesses of the two companies. The results of the study found that Starbucks' three main values are better than PepsiCo. After further analysis and research, currently, Starbucks may be a stock worthy of investment in the beverage market.

Keywords: Value investment, beverage market, PEG ratio, GP/A ratio, gross margin ratio.

1. Introduction

Ordinary investors with no professional knowledge may believe in the efficient market hypothesis and believe that market prices always equal fundamental values, and therefore their prices always reflect their value [1]. On the contrary, value investors do not believe in the efficient market hypothesis. There is an *equilibrium level of disequilibrium* in the market [2]. If the market is completely efficient, then active investing is meaningless. Value investors believe that stocks may be overvalued or undervalued for a variety of reasons.

In recent years, Fama, Hansen, and Shiller have developed new methods for studying asset prices and applied them to the investigation of detailed data on stock, bond, and other asset prices [3].

Although the Nobel laureates' methods have become a standard tool in academic research and have provided guidance for theoretical development and professional investment practice, professional stock investment strategies may not be understood by ordinary investors. Benjamin Graham's value investment strategy is easy-to-understand that does not require a lot of professional knowledge may help ordinary investors learn popular value investment strategies and better enter the stock trading market [4].

This article mainly studies two stocks in the beverage market that people are familiar with, Starbucks and PepsiCo, and uses the basic analysis logic of value investment strategy to interpret the operation and development strategies of the two companies.

The main research method of this article uses three basic value investment mathematical formulas, and compares the excellence and shortcomings of each company, analyzes the financial status disclosed by the two companies, and obtains useful value investment information The PEG ratio is used to determine a stock's value while also considering the company's expected earnings growth, and it has more accuracy to provide a more complete picture of the company. The PEG ratio provides useful information to compare companies and understand which stock may be a better choice to meet investor needs. When a company's PEG exceeds 1.0, it is considered overvalued, while stocks with a PEG below 1.0 are considered undervalued [5]. The GP/A is an excellent metric that attempts to measure the efficiency and quality of use of a company's assets [6]. Higher numbers indicate a company that is productive and efficient and may have a competitive advantage. The Gross Margin reflects how well a company converts sales into profits, as it helps them determine whether the company's financial health is healthy. A high gross margin indicates a higher degree of profitability and operational efficiency, and low gross margin indicates areas for improvement [7].

The study analyzes the three values of Starbucks and Pepsi-Cola respectively, conduct a comprehensive situation analysis, and try to choose one of the stocks suitable for investment for investors.

This study will mainly analyze the financial status disclosed by two companies in the stock exchange market as a data basis, for example, Balance Sheet, Income Statement, EPS, Stock Price. Merge the annual reports of the past four years and the quarterly reports of the past year, integrate the target data, and apply it to three value analysis methods.

In PEG, it is necessary to calculate the EPS Growth Rate and NTM P/E Ratio, and finally obtain the PEG Ratio of the two companies. PEG Ratio can be analyzed by direct comparison.

After GP/A Ratio needs to integrate the data, it needs to create a line chart, analyze the line chart of each company, and then merge the data of the two companies for comparison.

Gross Margin needs to be analyzed for annual and quarterly reports, and also made into a line chart, to analyze the stability of each company and the size of the Gross Margin value and make appropriate choices. After analyzing and comparing the three methods, you need to comprehensively consider the actual situation and make the final stock selection.

2. Three Main Indicators

2.1. PEG Ratio

Table 1. PEG Ratio

	PEP	SBUX
EPS Growth Rate	7.1%	14.3%
TTM P/E Ratio	21.63	24.78
PEG	3.05	1.73

As shown in the Table 1. PEG Ratio. PepsiCo's EPS Growth rate is 7.1% and its TTM P/E Ratio is 21.63. From the first two data, it can be calculated that the Price/Earnings-to-Growth (PEG) Ratio is 3.05. PepsiCo's three values are all positive, and EPS The growth rate is lower than the growth rate of 10%, and the TTM P/E Ratio value is just over 20. PEG is at a level of 3.05. As shown in the picture.

Similarly, Starbucks' EPS Growth Rate is 14.3%, and its TTM P/E Ratio is 24.78. PEG is 1.73. Starbucks' EPS Growth Rate exceeds 10%, and its TTM P/E Ratio is also greater than 20. PEG remains at a low level. As shown in the picture.

Comparative results: Pepsi-Cola's EPS Growth Rate of -7.1% is 2 times lower than Starbucks' -14.3%. The TTM P/E Ratio is almost the same, but Starbucks is higher than Pepsi-Cola, with a gap of nearly 3. The Price/Earnings-to-Growth (PEG) Ratio can be calculated from the EPS Growth Rate and TTM P/E Ratio. SBUX is far lower than PEP, with a gap of nearly twice.

While both stocks have PEG Ratios greater than 1, the PEP is much higher than SBUX, so a lower SBUX may be a better buy indicator, indicating that expected earnings growth is not currently priced in. However, PEP may be an overvalued stock, suggesting the share price is not necessarily supported by growth forecasts.

2.2. GP/A

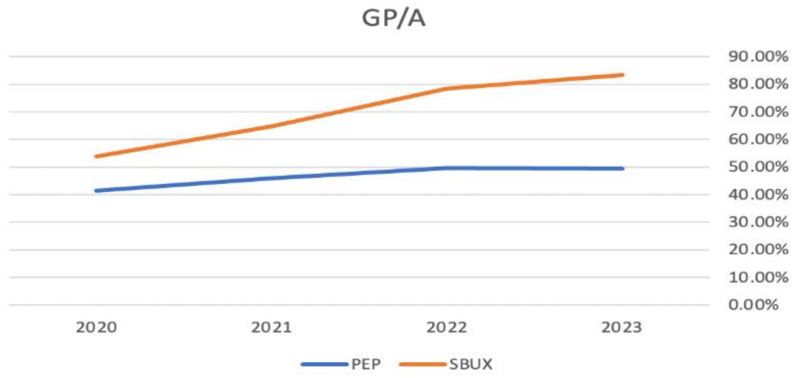

Figure 1. GP/A

As shown in the Fig.1 GP/A. PEP's GP/A has a relatively low value from 2020 to 2021, remaining between 41 and 45%. It does not change much from 2022 to 2023, and is very stable, close to 50%. PEP generally shows a growth trend that first continues to grow and then stabilizes, and the overall change is relatively small, with only nearly 10% room for growth.

SBUX's GP/A is also at a low level in 2020 at about 54%, but there is a linear growth trend from 2020 to 2022, from 54% to 79%, with an increase of more than 20%. It will still show strong growth from 2022 to 2023, reaching a high of approximately 84% in 2023. The overall data of SBUX shows a continuous growth trend, with a larger increase from 2020 to 2022 and a smaller increase from 2022-2023. The overall increase was nearly 30%, from 54% to 84%, with a large change.

Comparison results: Although both PEP and SBUX show a continuous growth trend, Starbucks' GP/A has always been higher than PEP. From the perspective of growth potential, SBUX grew by nearly 30% from 2020 to 2023. However, PEP only grew by less than 10% over a long period of time. Forecasting future trends, judging from the overall development trend, SBUX still has a large room for growth and has no downward trend. However, PEP has leveled off soon, from 2022 to 2023, and may show a downward trend in the future.

SBUX's GP/A has grown significantly. For companies seeking investors, a strong GP/A can enhance investor confidence. It demonstrates company's ability to generate profits from its core activities, making it an attractive investment prospect. However, PEP's GP/A has flatlined recently and has a smaller growth rate, making it unattractive for investment.

2.3. Annually Gross Margin and Quarterly Gross Margin

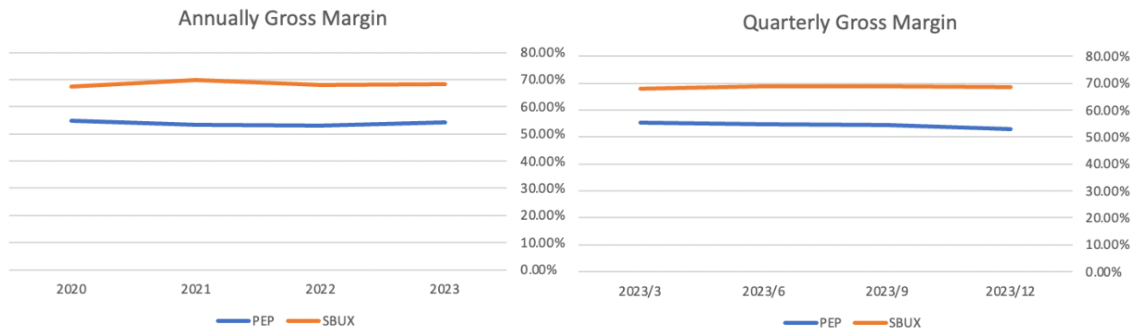

Figure 2. Annually Gross Margin and Quarterly Gross Margin

As shown in the Fig. 2 Annually Gross Margin and Quarterly Gross Margin. PEP. The values of PEP's Annually Gross Margin and Quarterly Gross Margin remain between 52% and 55%. The overall trend of Annually Gross Margin is high at both ends and low in the middle, stable between 53% and 54%, with very small changes. Quarterly Gross Margin shows a continuous downward trend. In the four quarters, Gross Margin gradually decreased, from 55% to 52%.

Similarly, SBUX's Annually Gross Margin and Quarterly Gross Margin range from 67% to 69%. Annually Gross Margin increased from 67% at the beginning of 2020 to a peak of 69% in 2021 and fell to 68% to remain stable in 2022-2023. The overall trend is fluctuating growth. Quarterly Gross Margin was 67% in the first quarter but has grown steadily at 68% in the last three quarters.

Comparison results: PEP, both in Annually Gross Margin and Quarterly Gross Margin, did not surpass SBUX's Gross Margin. It just remained in a stable range, and there was a relatively large gap between the two, nearly 15%. Annually Gross Margin is similar, both tend to be stable, but Quarterly Gross Margin and PEP show a continuous downward trend, while SBUX shows a continuous growth trend. Overall, SBUX is more stable than PEP in terms of Annually Gross Margin and Quarterly Gross Margin, and the value is larger, far exceeding PEP.

SBUX's high gross profit margin means that the company is operating efficiently, but PEP's low gross profit margin indicates that the company has areas that need improvement. However, neither company has large fluctuations in profits, which may indicate that the company's management is reasonable, and its products are of good quality.

Question 1: Can the PEG difference between the two stocks be too different to truly measure the company's actual situation? The PEG ratio is based on mathematics, which is rarely the case in the investment market. The PEG ratio does not explicitly consider the required rate of return and investment time horizon, which will affect the accuracy of using the PEG ratio to judge stocks [8].

Question 2: A lower gross profit margin affects company profits and means there are areas that need improvement, such as resource utilization efficiency, sales growth or lower production costs.

Suggestion 1: Introduce new rules of thumb, such as earnings growth rate and earnings reinvestment rate, to judge the current required rate of return [9]. If the current required rate of return is higher than the introduced rules of thumb, then the company may be undervalued. Better compensate for the shortcomings of the PEG ratio.

Suggestion 2: Increase gross profit margin and improve the company's competitiveness. Reduce operating expenses without reducing sales price. Improve productivity and efficiency and increase prices without increasing operating costs [10].

3. Conclusion

By using the main evaluation methods of value investing, PEG, GP/A and Annually Gross Margin and Quarterly Gross Margin, it analyzes and compares these indicators of Starbucks and PepsiCo in the beverage market industry. Ultimately, Starbucks may be a company worth investing in. Among the three evaluation methods, Starbucks' data is far better than that of PepsiCo, with lower PEG, higher GP/A and relatively stable and higher Annually Gross. Margin and Quarterly Gross Margin. These indicators are what investors want to see and are very attractive. The specific analysis of the main methods and cases of value investing can be applied to actual investment strategies, which can help investors reduce investment risks and increase return on investment. In this case analysis, there may be inaccuracies and the existence of some special data is ignored. Later, as a better stock, Starbuck may conduct some comprehensive data analysis to verify the reliability of this investment

Through research on value investment strategies, it is found that when tradeoff a stock, one should use the company's existing financial reports and rely on objective analysis results to evaluate a company's attractiveness to investors, reducing irrational human factors that affect the stock. judgment. And value investing pays more attention to the intrinsic value of stocks, quality products and services, and companies with good financial conditions. It does not follow the trend and buy popular stocks. As a value investor, you should pay attention to unnoticed and inconspicuous stocks and be patient, waiting for low prices to buy stocks and long-term company financial statement analysis, so that you can make huge profits in the stock market.

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