Stock Investment Value Analysis Based on Sports Brand Section

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Abstract. This article briefly analyzes the risks, profitability, and market ratios of the stocks of three sportswear brands and gives investment advice for different types of investors. Lululemon, Nike, and VF Corporation are three sports industry brands. First, none of the three stocks are value stocks. Because of its better upward momentum, Lululemon would be a satisfying choice for momentum investors. Due to its insider buying of more than 4% and its highest ROA among them, Lululemon is also the best choice for insider buying and ratio analysis investors. Due to its PEG ratio of less than 1, dividend yield greater than 6, and DCF valuation higher than the current stock price, VF Corporation is popular with PEG, income, and DCF investors. NIKE has a stock buyback of more than 1B USD, which is the highest among the 3 stocks, so stock buyback investors are more inclined to invest in it. Lululemon and NIKE have market caps higher than 15B USD, so they have less size risk, which makes them more favored by index investors.

Keywords: Lululemon, Nike, VF Corporation, Stock Investors.

1. Introduction

The basic idea of investing is that one puts capital into an asset with the expectation that the asset will be worth more when it is sold or liquidated. So, investors can invest in virtually anything that is likely to appreciate in value. This article only talks about stock investors. Investors may prefer growth or value strategies. This brings the concept of growth investment and value investment. Growth investing is a type of investment strategy focused on capital appreciation [1]. Value investing is an investment paradigm that involves buying securities that appear underpriced by some form of fundamental analysis [2]. High-profile proponents of value investing, including Berkshire Hathaway chairman Warren Buffett, have argued that the essence of value investing is buying stocks at less than their intrinsic value [3]. However, 25 years later, influenced by his friend Charlie Munger, Buffett expanded the value investing concept with a focus on "finding an outstanding company at a sensible price" rather than generic companies at a bargain price [4]. This has many important implications for subsequent investors.

In addition to growth investors and value investors, there are many different types of investors, such as index investors, DCF investors, insider buying investors, and so on. From their point of view, they value a particular attribute of a stock more. This requires that the values of these attributes should be listed in the specific analysis of stocks and compared one by one.

The apparel sector is a hot area that investors have been paying close attention to. NIKE is one of the old sports brand companies, it is widely known, in the world and has a stable industry chain. Lululemon is a new sports brand, which is very popular among young people. It is rapidly developing with positive momentum. VF Corporation is a sportswear company with many fashion brands. Its brands all have their own classic styles and are well-known to people. They are the three most representative companies in the industry. This article will analyze the stocks of these three companies and select the best companies for different types of investors.

2. Data Collection

2.1. Introduction

Clothing is an essential part of people's daily life. It is also an industry of great interest to investors. Focusing on the clothing industry, I selected 3 of the most representative companies in the apparel industry, Lululemon, VF Corporation, and NIKE. Lululemon is a Canadian multinational athletic apparel retailer[5]. VF Corporation is an American large apparel, footwear, and accessories company [6]. It has many established brands like VANS, The North Face, Timberland, and so on. NIKE is an American athletic footwear and apparel corporation[7]. They are three companies belonging to the same industry, the clothing industry.

In order to provide a basis for different types of investors to make decisions, it is necessary to analyze the three stocks of these three companies. First, these are the stock trend charts of three stocks from September 2022 to August 2023.

2.1.1. Lululemon

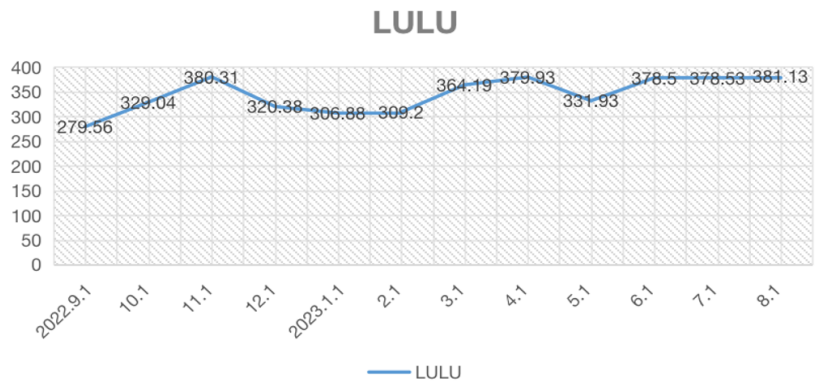

Figure 1. Stock price of LULU

According to Figure 1, what is clear from this observation is that Lululemon's stock price has generally been on an upward trend from September 2022 to August 2023. The stock price on August 1 2023 increased by 101.57 USD compared to the stock price on September 1 2022. The factor that can continue to drive Lululemon's revenue growth can be briefly summarized as brand reputation, which means Lululemon has become a premium brand in the sportswear market, known for its high quality, innovative and stylish products, product innovation, which means the company focuses on research and development, creating unique proprietary fabrics such as Luon and Nulu, diversified product offerings, which means lululemon has successfully expanded its product portfolio beyond yoga apparel to meet the needs of other sports and fitness activities, such as running, cycling, training and international expansion, which means it has opened stores in major markets such as Asia and Europe.

2.1.2. NIKE

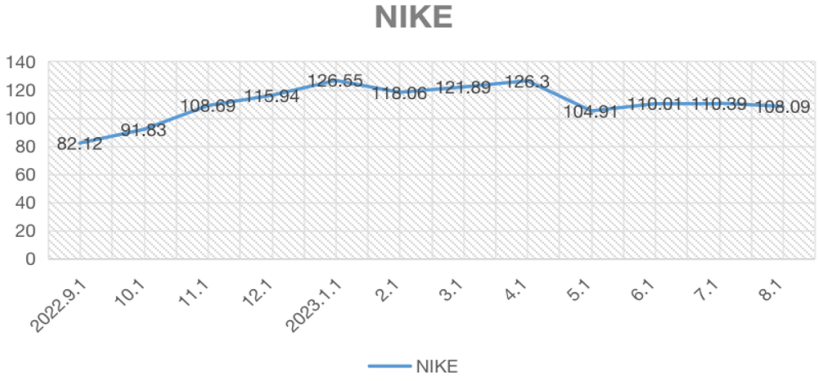

Figure 2. Stock price of NIKE

According to Figure 2, although not as strong as Lululemon's momentum, NIKE's stock price from September 2022 to August 2023 also showed an upward trend. The stock price on August 1 2023 increased by 25.97 USD compared to the stock price on September 1, 2022. Nike has a lot of unique advantages. First, NIKE is the most competitive brand in the footwear and sportswear market with a worldwide presence including the USA, UK, Asia, and most of the rest of the world. Regarding promotion, Nike's marketing efforts are carefully created to target a particular group, even with varying demographics and psychographics. Finally, the brand also leverages third-party resellers and retailers to skyrocket sales. However, the brand diversifies its selling channels, such as online stores and physical locations [8]. But The Nike firm has faced allegations of labor and wage laws with employees, poor working conditions, and so forth. Also, constant competition leads to limited growth in market share. The brand shows that the road to success can be messy, dangerous, and chaotic, full of mistakes, endless adversity, and sacrifices [9].

2.1.3. VF Corporation

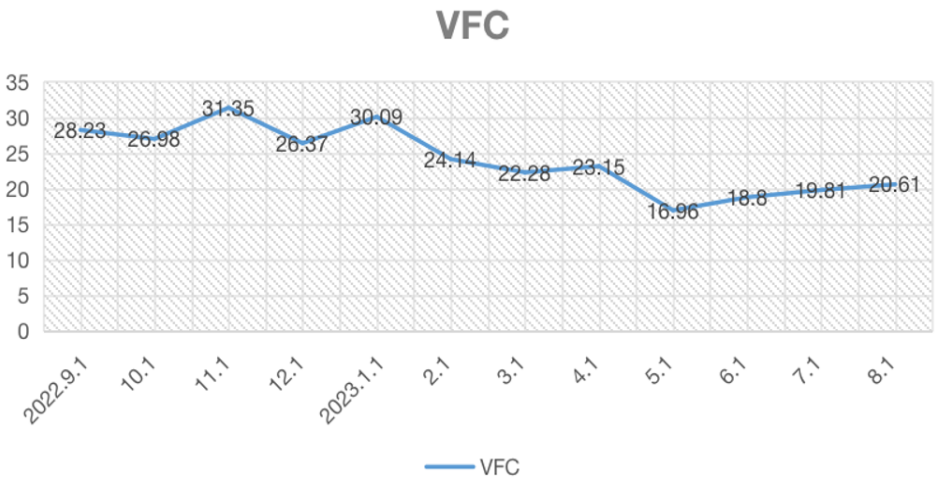

Figure 3. Stock price of VF Corporation

According to Figure 3, unlike Lululemon and NIKE, VF Corporation's stock price from September 2022 to August 2023 showed a steady trend and then a downward trend, which means that the growth of this stock is not good. The stock price on August 1 2023 decreased by 7.62 USD compared to the stock price on September 1, 2022. The reason for the decline in VF Corporation's share price largely depends on its declining revenue. For Vans, VF Corporation's largest brand, business was down 22 percent, largely from a 40 percent dip in the Americas wholesale business. As Vans global brand president Kevin Bailey told FN in an interview in March, he identified several missteps, including not innovating enough, becoming dependent on classics, and becoming less strategic about where the brand shows up in the marketplace[10]. For these problems, VF Corporation needs to take some measures to improve and it won't be a short time.

3. Literature References

Searching for the values of each of these three stocks helps to synthesize their risk and profitability and assess which types of investors they are suitable for.

3.1. Risk

Table 1. Risk Analysis

	lululemon	VF Corporation	NIKE
Market Cap	48.025B	7.654B	166.948B
Beta	1.43	1.49	1.12
Debt Ratio	0.19	0.56	0.32

First, people often use three indicators, Market Cap, Beta, and Debt Ratio to analyze their risks. From Table 1, it shows that VF Corporation has a higher beta than Lululemon and lululemon than NIKE. So, VF Corporation has a greater beta risk than Lululemon and Lululemon than NIKE. VF Corporation has a higher debt ratio than NIKE and NIKE than Lululemon, so VF Corporation has a greater debt ratio risk than NIKE and NIKE than Lululemon. If the market cap of a stock is below 15B USD, it means that it is a small company and carries a certain size risk. The market cap of Lululemon and NIKE are higher than 15B USD, but the market cap of VF Corporation is less than 15B USD. So, VF Crop has a greater size risk than Lululemon and NIKE.

3.2. Profitability

Table 2. Profitability Analysis

	lululemon	VF Corporation	NIKE
Total Assets Turnover	1.45	0.84	1.35
Profit Margin	11.24%	1.02%	9.90%
ROA	22.73%	4.80%	9.50%
ROE	31.90%	5.68%	34.62%

Second, make a comparison with their profitability using these statistics in Table 2. The most important ratio to compare profitability is ROA. ROA means return on asset; it reflects the ratio of net income to total assets. If its ROA is above 4%, that means the stock has good profitability. As shown in Table 2, the ROA of all three companies is higher than 4% and Lululemon is higher than NIKE and NIKE than VF Corporation. So Lululemon is more profitable than NIKE and NIKE than VF Corporation.

3.3. Market Ratios

Table 3. Market Ratios Analysis

	lululemon	VF Corporation	NIKE
PE Ratio	50.66	63.52	33.63
P/B Ratio	14.47	2.63	11.87
PEG Ratio	1.73	0.54	1.98
Dividend yield	N/A	6.35%	1.26%
DCF	279.34	29.34	81.64
50-DayMoving Average	369.36	19.05	109.01
200-DayMoving Average	342.08	24.68	113.69
Current Stock Price (7.30)	377.96	19.69	108.62
Insider Buying	4.85%	0.73%	1.26%
Stock Buyback	98.48M	N/A	1.379B

People will often use different market ratios to give different types of investors different advice.

Value investors, actively ferret out stocks they think the stock market is underestimating, they tend to invest in stocks that have PE ratios lower than 10 or PB ratios lower than 1. From Table 3, it is obvious to find that all three stocks have PE ratios higher than 10 and PB ratios higher than 1 so value investors won't invest in them.

For PEG ratio investors, they tend to invest in stocks that have PEG ratios lower than 1. Only VF Corporation has a PEG ratio lower than 1 so PEG ratio investors will invest in it.

For income investors, they prefer stocks that have dividend yields of more than 4%. It represents that only VF Corporation meets the requirement from Table 3.

Discounted cash flow (DCF) analysis calculates the present value of future cash flows based on the discount rate and time period of analysis. If the present value of future cash flow is higher than the current stock price, that means this stock is worth investing in. The DCF value of Lululemon is estimated at 279.34 USD, which is 26% overvalued compared to the current market price of 377.96

USD. The DCF value of VF Corporation is estimated at 29.34 USD, which is 33% undervalued compared to the current market price of 19.69 USD. NIKE's DCF value is estimated at 81.64 USD, which is 25% overvalued compared to the current market price of 108.62 USD. It is clear from Table 3 that only VF Corporation meets the requirement. It will be a better choice for DCF investors.

Momentum investors will invest when the 50-day moving average price of the stock is higher than the 200-day moving average price, which means the stock has the potential to rise. From Table 3 it shows that only Lululemon meets the requirement.

For insider buying investors, they prefer to invest in stocks that the company insiders buy more. It is generally thought that insider buying above 4% will attract insider-buying investors. It shows that Lululemon has more insider buying than NIKE and NIKE than VF Corporation. And only Lululemon's insider buying is higher than 4%. So Lululemon is the best choice for insider-buying investors.

For stock buyback investors, they prefer to invest in stocks that have more stock buybacks. It shows that NIKE has more stock buybacks than Lululemon. So, NIKE is the best choice for insider-buying investors.

Index investment is a passive investment strategy that seeks to replicate the returns of a benchmark index. Index investors can be seen as a very timid type of investor, they prefer stocks that have low size risks, which means their market cap is greater than 15B USD. So Lululemon and NIKE are better choices than VF Corporation for index investors.

For ratio analysis investors, they prefer stocks that have higher ROA so they prefer to choose Lululemon over NIKE and NIKE than VF Corporation.

In summary, Lululemon is the best choice for Index, Insider Buying, DCF, Ratio Analysis, and Momentum investors. VF Corporation is the best choice for PEG and Income investors. NIKE is the best choice for Index and Stock Buyback investors.

4. Conclusion

This article takes the clothing industry as an example to introduce how to make investment decisions for different types of investors.

After a comparative analysis of various data, we reached a conclusion. Lululemon is the right choice for Index, Insider Buying, DCF, Ratio Analysis, and Momentum investors. VF Corporation is a good choice for PEG and Income investors. NIKE is a stock favored by Index and Stock Buyback investors.

This paper only analyzes different data and discusses the investment strategy of a single investment method. The next step can be to comprehensively discuss the best strategy for mixing different investment methods.

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