

Invest Value Analysis Based on Risk, Profit and Market

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Abstract. In 2022, the post-pandemic period, the health sector stocks had a big difference in price performance between different stocks. Some stocks rose significantly because of the vaccines and specific drugs for covid-19, while others' growth slowed down or even had negative profit margins because people were afraid to go to the hospital which cause a reduction of other drugs' sales volume. In the health sectors, there're companies that research and development of drugs, distribute drugs, make medical apparatus and instruments, and even have some "grocery stores" like CVS. It might be difficult to find which stocks are worth the cost of implementation in the post-pandemic period and the special increase because Covid-19 has ended. This paper will analyze 3 stocks as an example to show the investment decisions between different investors. By using risk analysis, profit analysis, and market analysis, this paper will show the investment value of 3 stocks: CVS, MCK, and WBA. These analyses are based on PE, PB, ROA, ROE, profit margin, and many other ratios in 2022. This article will help people choose the health sector stocks. In the conclusion, MCK has the most investment value in 2023 and MCK has a stable income with low risk. WBA may be a bad choice.

Keywords: Health sector stocks, invest value analysis, multiple-factor analytics.

1. Introduction

The health sectors are critical components of any society, as they play a key role in promoting and maintaining overall health and well-being, and in ensuring that individuals have access to the care they need to live long and healthy lives. The health sectors include a wide range of companies that provide healthcare products and services, such as pharmaceuticals, medical devices, hospitals, clinics, and health insurance. These stocks are changeable because they are influenced by a variety of factors, including government policies, regulatory changes, technological innovations, global economic conditions, and so on. Especially in recent years, the health sector has been particularly impacted by the COVID-19 pandemic, which has highlighted the importance of healthcare and spurred investment in companies. Vaccine development, medical equipment production, and telemedicine are booming.

To sum up, the health sector is likely to remain an important and lucrative part of the US economy in the coming years. As the demand for health care continues to rise and the industry continues to innovate and evolve, the health sector stocks have a large potential for development. Investors will have a great payback in the health sector in the future.

2. Company Bios

2.1. CVS Health Corporation (CVS)

CVS stands for "Convenience, Value, and Service".

CVS is an American cosmetics retailer and the largest drugstore chain in the United States. CVS sells prescription drugs and a wide assortment of general merchandise, a little bit like a grocery store [1]. The industry of CVS is Healthcare Plans. In 2022, CVS Health commits nearly \$19 million for affordable housing development and sold swiftly to Francisco Partners [2-3]. And CVS has disruptive innovation and a competitive advantage which makes it to be the top US Pharmaceutical retail market. CVS ignite the Implementation of Age-Friendly Health Systems in 2023 [4] [5]. The COVID-19 epidemic raises the advantages and synergies of CVS and forces it to accelerate its already ambitious plans to dominate the US drug and retail market [6-9].

2.2. McKesson Corporation (MCK)

MCK is an American company distributing pharmaceuticals and providing health information technology, medical supplies, and care management tools. During the COVID-19 pandemic, MCK was responsible for distributing and delivering the vaccine. McKesson obtained these vaccines from Moderna for packaging and distribution to 3285 locations throughout the country. MCK won a good reputation by it. In 2022, McKesson paid \$1 Million to resolve recordkeeping violations under the controlled substances act [10]. McKesson and Genpact expand their relationship to support McKesson's finance operating model optimization in 2022. The industry of MCK is Medical Distribution [11] [12].

2.3. Walgreens Boots Alliance, Inc. (WBA)

WBA is an American-British-Swiss holding company headquartered in Deerfield, that owns the retail pharmacy chains Walgreens and Boots, as well as several pharmaceutical manufacturing and distribution companies. WBA sells prescription and non-prescription drugs, and a range of household items, including personal care and beauty products. WBA is a "False" Pharmacy, a Real Grocery Store. The Industry of WBA is Pharmaceutical Retailers. [13]

3. Factors Analysis

3.1. Risk Analysis

The BETA (5 Year) Benchmarks of the health sectors is 1.09, the min BETA is -1.16, the max BETA is 3.10, the median BETA is 0.95, the mean BETA is 0.97 and the standard deviation is 0.76. (<https://finbox.com/AMEX:NHC/explorer/beta>). The average Debt Ratio of the health sector is 0.69 (2022-12-31). The average Current Ratio of the health sector is 2.85(2022-12-31). (<https://www.macrotrends.net/stocks/charts>)

Table 1. Risk Analysis Data of CVS, MCK, and WBA

Sector(s): Healthcare	CVS Health Corporation (CVS)	McKesson Corporation (MCK)	Walgreens Boots Alliance, Inc. (WBA)
Beta	0.68	0.62	0.74
Debt ratio	32.62%	11.92%	39.37%
Current ratio	0.94	0.9538	0.7
Quick ratio	55%	150.48%	23.96%
Debt/Equity ratio	1.00819	-4.2087	1.4732
Market cap	115.34B	53.768B	32.059B

For the Market cap, they are all greater than 30B dollars. These three companies are all top Healthcare companies in the US and they are all large-cap stocks. From the size perspective on risk, CVS is the lowest and has the biggest market cap among the world health sector stocks. Investors with a low-risk appetite will more likely invest in CVS. From the Beta perspective, Beta Risk: WBA>CVS>MCK. WBA is the riskiest in terms of those three stocks and MCK is the least risky. Because all Betas of these three stocks are lower than 1, they all lower the market risk and the risks are acceptable (see Table 1).

As to the leverage perspective, MCK has a negative Debt/Equity ratio and the lowest debt ratio. CVS and WBA are similar and they are both mature companies in the health sector, so the data are reasonable. CVS and WBA have a lower 40% Debt ratio and it's common in Healthcare Sector. So, in the Debt part, they're all low risks.

All these three companies have low Current ratios and Quick ratios. WBA LOWEST. We should pay attention to the MCK because of its negative equity for 3 years. All of these Current ratios are lower than 1 and only MCK has over 1 Quick ratio. So, they are not performed well in the current

racial and the quick racial. CVS and WBA are like grocery stores and they sell not only drugs but also many daily necessities. Because of the high inflation and more competitive environment, their Current ratio and Quick ratio are not attractive to investors in 2022. MCK mainly provides medical distribution and delivery business, so it had a normal Quick ratio in 2022.

TO SUM UP, for the Risk analysis: WBA>CVS>MCK; while they're all big companies and have relatively low risks in the stock market.

3.2. Profit Analysis

According to data from <https://www.macrotrends.net/>, the average net profit margin for the healthcare sector in the S&P 500 Index is 2.05% as of December 31, 2022. The average ROA of the health sector is 4.65% (2022-12-31). The average ROE of the health sector is 7.85% (2022-12-31).

Table 2. Profit Analysis Data of CVS, MCK, and WBA

Sector(s): Healthcare	CVS Health Corporation (CVS)	McKesson Corporation (MCK)	Walgreens Boots Alliance, Inc. (WBA)
Assert turnover ratio	1.2537times	4.1706times	1.472times
Profit Margin	1%	0.75%	-2.24%
ROA	3.97%	4.17%	1.36%
ROE	4.34%	-1.1457%	0.1426%
Revenue	314.34B	272.03B	132.18B
Net Earnings	7910000	1114000	4337000

All these three companies have low-Profit Margins, lower than 10-year US Treasury bonds, and an inflation rate in 2022. WBA even has a negative Profit Margin in 2022. Maybe because of COVID-19 or other reasons, they didn't do well in 2022. But if the process of economic resurgence accelerates, the inflation rate is controlled and people earn more money in 2023, these companies have the potential to rise their profit margins (see Table 2).

MCK performs best in the Total Asset Turnover Ratio, it manages its capital best and most effectively in making money. It's because of the distribution business of MCK and throughout the COVID-19 pandemic, MCK served as the U.S. government's centralized distributor for hundreds of millions of COVID-19 vaccine doses and ancillary supply kits for over 1 billion doses across the United States. While CVS and WBA are a little bit low in the Total Asset Turnover Ratio. They neither had the COVID-19 vaccine nor COVID-19-specific drugs. And people went to the hospital and bought drugs fewer times because of the fear of COVID-19. And retail and grocery are also influenced by COVID-19 and inflation. In 2023, these ratios might be higher and CVS and WBA will make their money more efficiently.

The ROA of all these three companies is low and MCK has the highest ROA. Because of the negative equity, MCK has negative ROE. CVS and MCK have normal ROA, but WBA is low in ROA. WBA didn't do well in 2022 and fewer people bought WBA products in 2022. And the market of grocery stores and the demand of people declined in 2022. The Equity of MCK and WBA should be attention to. Although MCK has had negative equity for 3 years, this company has paid a dividend on time for 3 years. So, we should not fear it. The ROA and ROE of CVS are normal. But we should focus on WBA because of its low ROA and ROE. If they're still low in 2023, it might be a bad choice to invest in WBA.

In the conclusion, CVS has the best profit margin, MCK has the Best manage and we should pay attention to the equity of MCK. Investing in CVS and MCK is a good choice and we can make a reasonable risk to invest in WBA.

3.3. Market Analysis

Table 3. Market Analysis Data of CVS, MCK, and WBA

Sector(s): Healthcare	CVS Health Corporation (CVS)	McKesson Corporation (MCK)	Walgreens Boots Alliance, Inc. (WBA)
PE	37.04	26.8	7.39
PB	1.67	5.04	1.53
Dividend yield(5 Year Average)	2.80%	0.94%	3.73%
PEG Ratio (5 year expected)	1.29	0.78	50.616
Growth rate in Revenue	8.71%	10.80%	0.15%
Momentum (MA50 vs MA200)	NO	YES	NO

The PE of WBA is low. The PE of CVS might be a little bit high. When the PE ratio of stocks is too high, it means that the increase in share prices doesn't match the growth of profits of listed companies. The company may be overvalued and investors should pay attention to the risk. The PE of MCK might be reasonable, so MCK has a low real market value and high investment value. The MCK stock might rise (Table 3).

The PB of MCK is about 5 and it is reasonable. The PB of CVS and WBA are lower than average. If the assets of stock are guaranteed, then the low price-to-book ratio means that the market is undervalued, which means that there are investment opportunities. Especially if the price-to-book ratio is less than 1, the stock might have great investment opportunities. Generally speaking, stocks with lower PB ratios have higher investment value.

For the dividend yield, WBA>CVS>MCK. So, income investors might invest in WBA and CVS. The dividend yield of MCK is too low. And all of these dividends have been paid on time for 3 years.

The PEG ratio of MCK is lower than 1, so it is undervalued and PEG investors will buy it. Because MCK has a growth perspective, PEG investors and growth investors will invest. And the PEG of CVS is 1.29, lower than 2, so PEG and growth investors might invest in CVS, too. The PEG of WBA is too high.

All these stocks are greater than 30B dollars. They are all top Healthcare companies in the US and they are all large-cap stocks. And they are involved in the Healthcare Sector stocks index. So, index investors will buy these stocks.

We can find that only MCK had MA50>MA200. So, momentum investors will only invest in MCK. All of these three stocks had inside buying and smart money in 2022. Only MCK didn't have stock buybacks in 2022. So, if we know the right time and opportunities, the following might earn money in the stock market.

To sum up:

CVS: Index; Growth; Income investors would invest

MCK: Index; Value; Momentum; Growth investors would invest

WBA: Index; Income investors would invest

Index investors will buy a large amount of selected big market cap stocks, like the health sectors index, S&P 500 Index, and so on. Since CVS, MCK, and WBA are all big market cap stocks in the health sector, index investors are more likely to buy all of them.

Growth investors will buy the stocks with lower 2 PEG ratios. CVS (1.29) and MCK (0.78) are good choices.

WBA has the highest systematic risk, so its dividend yield is 3.73%. It is higher than the risk-free rate and the 10-year US Treasury bond in 2022, but lower than the 10-year US Treasury bond in 2023.02. Maybe the income investors would invest

Value investors like Warren Buffett may buy MCK because it is undervalued and has long-term potential.

4. Evaluation and Analysis Model

To build a simple multi-factor model, selecting some factors related to these three companies is the key point. The model contains factors that can be divided into three categories: market factors, industry factors, and company-specific factors.

Market factors include a market index, interest rate, macroeconomic policies, and so on. S&P 500 index is added to market factors to show the performance of the whole market in 2022. And The yield of 10-year treasury bonds and central bank policies in market factors can reflect the whole economic situation and the macroeconomic policies.

Industry factors include factors related to the company's industry, such as income growth, industry prosperity, the average performance of health sector stocks, etc. The pharmaceutical industry index and healthcare expenditure are good ways to reflect the performance and income of the entire pharmaceutical industry.

The company-specific factors refer to financial indicators, the performance of the target company, etc. PE, PB, BETA, and all data in the previous article will reflect the company-specific factors.

CVS Health Corporation has the best performance in terms of revenue and net profit, and its market value is also the highest among the three companies. On the other hand, the revenue and net profit of McKesson Corporation and Walgreens Boots Alliance are much lower, but the market value is similar.

Table 4. Industry growth rate and Market share of 3 companies

Company	Industry growth rate(%)	Market share(%)
CVS Health Corporation	6.5	24.6
McKesson Corporation	5.6	6.5
Walgreens Boots Alliance	5.5	13.8

It can be seen from the above table 4 that CVS Health Corporation also performs best in terms of industry growth rate and market share, while McKesson Corporation and Walgreens Boots Alliance are slightly inferior.

Therefore, based on the above analysis, we can conclude that CVS Health Corporation has the best financial and industrial performance, outperforming McKesson Corporation and Walgreens Boots Alliance.

To sum up, CVS and MCK are worth investing in. WBA is risky but worth a try.

5. Conclusion

In the post-COVID-19 era, the stock price and the income of CVS are relatively stable. Through years of mergers, acquisitions, expansion, and improvement of its business model, CVS has obtained considerable benefits. In the future, CVS is expected to increase the share and profit of its online business through further mergers and increasing digital services.

MCK provides medical management, medical services, and digital health solutions. The company has strengthened its position in the healthcare industry through a large number of mergers, acquisitions, and investments. The stock returns of MCK are relatively stable. MCK will continue to improve its competitiveness through digital services and solutions.

WBA may face fierce competition in the retail market of pharmacies like retailers such as CVS in 2023. These competitors may put pressure on the sales and market share of WBA. WBA has a wide range of businesses worldwide and continues to seek market opportunities. Due to the continuous growth of the global healthcare market, WBA may seek to expand its business in emerging markets to drive revenue growth.

By using Risk, Profit, and Market Analysis, the article shows the approximate performance of 3 companies in 2022. The simple model shows the investment tendency of these 3 stocks.

For the Risk Analysis part, CVS, MCK, and WBA all lower the average market risk and average health sector stocks risk. WBA might be a little bit high among them, but the investors shouldn't

worry about it. The business scope of CVS is similar to that of WBA. As for the Profit Analysis, CVS might be better than WBA in almost every factor. Because MCK shares different business scopes, its higher asset turnover ratio, and ROA shows potential among the health sector stocks. Considering the Market Analysis, CVS is the best stock for those Low-risk preference investors. MCK is also a potential, growth, and undervalued stock that value, PEG, and momentum investors will invest in. Investors can take a certain risk to investing in WBA for its high-income ratio.

More multi-factor models and portfolio models will be added to the analysis. Since there are only data in 2022, more data from these three companies will be analyzed. If the model includes at least 3 years of data during the epidemic and some data before the epidemic, the forecast results might be more accurate. Since it's the new post-COVID-19 era, there aren't too many histories we can reference. Three years of the epidemic may make the investors have confidence in health sector stocks or may let the investors overvalue these stocks.

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