

# Value Investing: Comparison Among Aviation, House Holdings and Financial Industries

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## ABSTRACT

Value investing is crucial for modern financial participants. This paper analyzes three companies in different industries, i.e., Delta Air Lines, M.D.C. Holdings Inc., and SVB Financial Group from the perspective of value investment and finds out which is the most valuable investment object. In the research process, seven different indicators are used to analyze these three companies, i.e., cheapness, growth, profitability, dividend payout, global market development, industry potential and the COVID-19 pandemic, etc. The results show that SVB Financial Group performs well at all levels. Therefore, SVB Financial Group is the company with the most investment value among all the three and should be focused more when making investment decisions.

**Keywords:** Value investing, Covid-19, SVB Financial Group.

## 1. INTRODUCTION

Value investing is an important method widely applied in the investment field. It relies on fundamental analysis to determine when a stock is trading at less than its intrinsic value. Investors who adopt value investing are named as value investors, who are looking for stocks that have been performing poorly but have good long-term prospects. Value investors are willing to wait until the stock comes back into favor to achieve its potential growth [2]. Value investing firmly believes that value investors can benefit from identifying stocks that have been undervalued by the market.

Nowadays, value investing has become an indispensable part of contemporary investment theory. There are many studies on value investing from different aspects. For example, Piotroski [10] demonstrated that value investing can bring stronger returns for investors; Bruce, Judd, Erin, Mark and Tano [5] gave a comprehensive introduction to value investing; Zhu, Niyomsilp and Walsh [14] used value investing to analyze listed companies in Chinese Manufacturing Industry; Nettayanun [9] discussed value investment strategies for Thailand's insurance industry; Tomi [12]

studied the returns from value investing method portfolios in the Finnish market.

While there have been many studies focusing on value investing, limited studies focus on comparing different industries. In this paper, we intend to conduct a comparative analysis of the aviation, home building and financial industries to fill the potential research gap to some extent. Since different industries cannot be compared directly, three representative companies from three distinct industries are selected for the study, i.e., Delta Air Lines, M.D.C. Holdings Inc. and SVB Financial Group. Also, value investing has been used to analyze and compare to select a stock with high quality and low price as the best investment choice among the above three companies.

The analysis process in this paper can be generalized as follows. Based on the data from 2015 to 2019, this paper uses P/E ratio, revenue, sales growth rate, profitability, EPS, EPS growth rate, EBITDA, EBITDA growth rate, EV/sales, EV/EBITDA, DPS, Dividend yields and dividend payout rates, to determine whether the three stocks meet the requirements of value stock. At the same time, to make the research more comprehensive and specific, we have also introduced three other

dimensions to analyze the three stocks, i.e., global market development, industry potential and the COVID-19 pandemic. The results show that SVB Financial Group is the most suitable investment target among the three companies because it not only performs well in various indicators, but also has the potential for international market development, industry potential, and is not affected by the pandemic.

The rest of this paper is as follows. Section 2 introduces the methodologies and data. Section 3 shows the results. Section 4 refers to the discussion and Section 5 concludes the paper.

## 2. DATA AND INDICATORS

### 2.1. Data

Data on the performance of leading companies in the aviation, home building and financial industries in the stock market from 2015 to 2019 has been collected, i.e., Delta Airline, MDC Holdings Inc and SVB Financial Group. According to current studies, Delta Airline is a US-based airline company that is one of the leading US-based airlines with 22.1% of the US aviation market while it also has an extensive global market including more than 300 destinations in over 50 countries [11]. MDC Holdings Inc is one of the largest home builders in America which is riding the hot real estate market to soaring earnings in 2021, it builds across the country including the hot metropolitan areas in Washington DC, Arizona, Colorado etc. [13]. In addition, SVB Financial Group offers commercial and private banking, asset management, investment services and funds management services to companies in technology, life science and healthcare etc. It reports robust loan and deposit growth along with stable credit costs in 2020 [1].

### 2.2. Indicators

Value investing includes three steps. First, selecting potentially undervalued stocks based on low price-to-earnings(P/E), price-to-book(P/B), and other valuation metrics. Second, evaluate stocks that pass the screening process in depth to determine their intrinsic value. Third, making the investment decision if and only if there is not valuation risk. In other words, from the perspective of value investing, buying undervalued stocks means buying high-quality stocks at a low price. Specific to this paper, we use cheapness, growth rate, profitability and dividend payout as specific criteria for screening stocks classified as undervalued.

Cheapness is the core indicator of value investing. In most cases, people evaluate the cheapness of a stock by looking at its annual revenue, EBITDA, EPS, and other

basic indexes. This research of the cheapness is mainly based on the P/E ratio, EV/Sales and EV/EBITDA.

The P/E ratio is the most widely used guide to the relationship between a company's stock price and its earnings. It indicates the multiple that an investor is willing to pay for a dollar of a company's earnings. In other words, the P/E ratio shows the number of times a stock's price is trading relative to its earnings. It is computed by dividing the market price of the stock by its earnings per share [8].

$$P/E \text{ Ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}} \quad (1)$$

Enterprise value-to-sales (EV/sales) is a financial valuation measurement that compares the enterprise value of a company to its annual sales. It gives investors a quantifiable metric of how to value a company based on its sales while taking account of both the company's equity and debt [7].

$$EV/ \text{Sales} = \frac{MC + D - CC}{\text{Annual Sales}} \quad (2)$$

$$MC = \text{Market capitalization} \quad (3)$$

$$D = \text{Debt} \quad (4)$$

$$CC = \text{Cash and cash equivalents} \quad (5)$$

The EV multiple is a ratio used to determine the value of a company, which is the enterprise value divided by earnings before interest, taxes, depreciation, and amortization (EBITDA). It considers a company's debt and cash levels in addition to its stock price and relates that value to the firm's cash profitability [6].

$$\text{Enterprise Multiple} = \frac{EV}{EBITDA} \quad (6)$$

$$EV = \text{Enterprise Value} \\ = \text{Market capitalization} + \text{Total debt} \quad (7)$$

$$- \text{Cash and Cash equivalents} \\ EBITDA = \text{Earnings before interest, taxes,} \\ \text{depreciation and amortization} \quad (8)$$

In general, value stocks have low P/E ratios, EV/Sales and EV/EBITDA, whereas growth stocks have high P/E ratios. Value investors are looking for companies with good products or ideas whose stock prices have declined, or companies that have been performing poorly but have good long-term prospects [8]. However, investors should not base their decisions solely on the above multiples since the type of industry and capital structure also affect them. Some industries have higher average P/E ratios than others, and it would not necessarily be a meaningful evaluation to compare these ratios across industries.

Thus, this research also took an investigation into the profitability of these three companies. A more profitable company is a better investment than a less profitable

company, research shows that in the full universe of stocks Gross Profit/Asset is the best predictor of returns. It provides valuable and predictive qualitative analysis when combined with valuation metrics [3].

$$\text{Gross Profitability} = \frac{\text{Gross Profit}}{\text{Total Assets}} \quad (9)$$

$$\text{Gross Profit} = \text{Revenues} - \text{Cost of Goods Sold} \quad (10)$$

$$\text{Total Assets} = \text{The Sum of All Current and Long Term Assets} \quad (11)$$

Besides, whether the company's high payout is also taken into evaluation. The Dividend yield is used to measure the payout of these three companies. It is the amount of money a company pays shareholders for owning a share of its stock divided by its current stock price. Mature companies are most likely to pay dividends [3].

$$\text{Dividend Yield} = \frac{\text{Annual Dividends Per Share}}{\text{Price Per Share}} \quad (12)$$

Lastly, the growth rates of Sales, EBITDA and EPS of each year are applied to measure the fast-growing characteristic. The growth rates of each consecutive year are calculated as percentage to check whether these indexes keep increasing tendency by looking and

comparing at the percentage figures since fast-growing can indicate a quality stock.

To make the research results more in line with the real investment, apart from the above measurements, this research has also introduced three additional dimensions, i.e., global market development, industry potential and COVID-19 pandemic. Since investment not only depends on the past and current indexes but also the industry development potential and pandemic should be considered as what really decides the return of the investment is the tendency in the future, we measure whether these three companies have a potential development in the future and whether the pandemic has negative effect on these companies.

### 3. RESULTS

Based on the data in 2019, this paper focused on P/E value, Revenue, Sales Growth Rate, Profitability, EPS, EPS Growth Rate, EBITDA, EBITDA Growth Rate, EV/Sales, EV/EBITDA, DPS, Dividend Yield and Dividend Payout Rate, to determine which company satisfies more on the requirements of a value stock.

The results are shown below in Table 2, Table 4 and Table 6. Obviously, SVB financial group is a better choice compared with the other two companies.

**Table 1** Delta Air Lines 2019 Peer Group

DELTA AIR LINES	2019 PEER GROUP
ALASKA AIR GROUP INC	SOUTHWEST AIRLINES
ALLEGIANT TRAVEL CO	SPIRIT AIRLINES INC
AMERICAN AIRLINES GROUP INC	UNITED AIRLINES HOLDINGS INC
JETBLUE AIRWAYS CORP	

**Table 2** Delta Air Lines and Peer Group Financial Indicators in 2019

Peer Group	25th	50th	75th	Delta
Market Value	4668.62	10307.06	23601.98	37589.25
EV	6643.04	18981.16	38661.93	51750.25
Revenue	7028.13	15604.5	43886.25	47007
EPS	4.15	5.54	8.37	7.3
EBITDA	1190.34	2915	6226.75	9199
P/E	7.91	9.02	11.26	8.01
EV/Sales	0.9	1.12	1.28	1.1
EV/EBITDA	5.6	6.52	6.96	5.63
DPS	0	0.57	1.44	1.53
D/P	0.00%	1.41%	1.72%	2.61%
Sales Growth Rate	4.24%	5.74%	7.29%	5.78%
EPS growth rate	27.83%	46.49%	85.51%	28.75%

EBITDA growth rate	9.59%	16.22%	23.47%	21.15%
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From the table 2, Delta Air Lines is a cheap stock due to low P/E value. However, SVB is a better choice since Delta Air Lines because Delta Air Lines' sales growth

rate, EPS growth rate and EBITDA growth rate are not outperformed comparing with its peer group.

**Table 3** MDC Holdings Inc. 2019 Peer Group

MDC HOLDINGS INC	2019 PEER GROUP
LENNAR CORP	HOVNANIAN ENTRPRS INC
TOLL Brothers	NVR INC
M/I HOMES	KB HOME
MERITAGE HOMES	PULTEGROUP INC
DR HORTON INC	BEAZER HOMES USA INC

**Table 4** MDC Holdings Inc. and Peer Group Financial Indicators in 2019

Peer Group	25th	50th	75th	MDC
P/E	8.78	10.26	12.13	10.26
P/E Growth Rate	-2%	34%	45%	34%
EV/Sales	0.84	0.96	1.21	0.94
EV/EBITDA	9.65	10.03	11.89	10.09
DPS	0	0.16	0.46	1.17
Dividend Yield	0%	0.27%	1.12%	3.05%
Profitability	0.16	0.20	0.24	0.20

From the table 4, it demonstrates that MDC's P/E value is at 50th percentile which does not satisfy the cheap stock requirement. In addition, MDC focuses on house holdings industry; as a result, it has strong

periodicity and high volatility. Therefore, comparing MDC with SVB, SVB is a better choice for value investing.

**Table 5** SVB Financial Group 2019 Peer Group

SVB FINANCIAL GROUP	2019 PEER GROUP
UMPQUA HOLDINGS CORP	ASSOCIATED BANC-CORP
WEBSTER FINANCIAL CORP	CULLEN/FROST BANKERS INC
SIGNATURE BANK/NY	BOK FINANCIAL CORP
EAST WEST BANCORP INC	ZIONS BANCORPORATION NA
E TRADE FINANCIAL CORP	COMERICA INC
HUNTINGTON BANCSHARES	REGIONS FINANCIAL CORP
KEYCORP	

**Table 6** SVB Financial Group and Peer Group Financial Indicators in 2019

Peer Group	25th	50th	75th	SVB
Market Value	6148.23	8569.76	14174.68	12967.72
EV	6945.11	10659.76	18143.27	6770.203
Sales	1746.53	3139	4728.5	3539.847
EPS	1.76	4.06	6.935	21.73
EBITDA	811.87	1386	2226.92	2064.841
P/E	11.25	11.784	12.52	11.55

P/E growth rate	7.18%	12.41%	18.13%	10.16%
EV/Sales	2.98	3.37	4.67	1.91
EV/EBITDA	6.30	7.81	11.28	3.27
Profitability	3.80%	4.04%	4.15%	4.54%
DPS	0.66	0.97	1.78	0
Dividend Yield	2.26%	2.89%	3.56%	0%
Dividend Payout Rate	25.27%	33.22%	38.41%	0%
Sales Growth Rate	5.76%	7.02%	13.10%	30.39%
EPS growth rate	0.14%	6.03%	9.80%	19.99%
EBITDA growth rate	-3.18%	0.89%	7.49%	22.08%

From the above tables (table 5 & table 6), it is clear that the EPS, Profitability, sales growth rate, EPS growth rate and EBITDA growth rate of SVB financial group are highest among its peer group. It means that it is a quality stock because of high profitability and growth rate. It is also a cheap stock, because it has a low P/E value, and its EV/sales and EV/EBITDA is the lowest among its peer group. In conclusion, SVB financial group is the best choice among the three choices.

#### 4. DISCUSSION

SVB financial group is a holding company, which engages in the provision of banking and financial services. SVB financial group is hailed by Forbes as one of the best banks in America and praised by FORTUNE as one of the fastest-growing companies. The company provides a range of comprehensive financial services, and at the intersection of innovation and capital. At the same time, it aims to help high-growth companies navigate at every stage and has made a great performance. For example, 63% of U.S. venture capital-backed companies that went public in H1 2021 are clients of SVB financial group. Based on SVB's P/E value, SVB is considered as a cheap stock. The P/E value of SVB financial group is lower than that of 50% of its peer group and has demonstrated a decreasing trend over the past 5 years. According to the results above, SVB financial group is also a quality stock. Five-year cumulative total return of SVB financial group was better than those of the S&P 500 and NASDAQ Composite Index. In addition, SVB financial group achieved a consecutive increase in revenue, and its revenue growth rate is better than the peer group average revenue growth rate. Furthermore, SVB financial group achieved sustained growth in profitability, which has exceeded the average of its peers over the past two years. The indicators of EPS and EBITDA of SVB financial group outperformed most of its peer group.

SVB financial group has accelerated its development in Global markets. Take China market as an example. SVB financial group has accelerated its development in

China market since 1999. Furthermore, currently, the China Securities Regulatory Commission had released restrictions on foreign companies registering in China, which decreases the difficulties of entering China capital market. The rapid development of the mainland China brought lots of opportunities for SVB financial group.

An efficient and innovative management team is important for the development of a company because it helps to reduce principle-agent problems and bring drive force to development. SVB financial group has a diversified management structure and professional members which helps to achieve efficiency in management.

Despite SVB Financial Group did not pay dividends, its shares remain highly attractive to investors as investors expect to gain a higher capital return in the future. Investors may hope SVB Financial Group takes advantage of retained earnings to invest in more valuable projects for better returns and higher dividends in the future. Finally, the pandemic of Covid-19 has brought a severe impact on the stocks market. From the above results, we can see that the performance of SVB financial group is not outstanding compared with the other two companies by the end of 2019. However, the pandemic brought lots of negative effects on the aviation industry but brought lots of opportunities for the SVB financial group. For example, shares of SVB financial group have continued to rise since the COVID-19 outbreak, and currently, the price of SVB financial group is now five times compared with the price before the pandemic. The above analysis may account for the conclusion of this paper that SVB financial group is a valuable stock for financial investors.

#### 5. CONCLUSION

This research evaluates and compares three companies, i.e., Delta airline, MDC holding and SVB financial group, from distinct industries based on the characteristics of value stock and several additional measurements. The P/E value, EPS, performance during

the pandemic of Covid-19 among other indicators of the SVB financial group shows significant advantages compared with the other two companies.

However, deficiencies also exist. First, apart from those indexes which are considered by this paper, more indicators should be taken into consideration such as stock price data for a longer period; adopting more indexes to measure one representative company from more aspects is desperately needed; Second, this paper took the data from 2015 to 2019, updating the sample period may lead to different results. At least the two aspects may need to be comprehensively investigated in the future.

## AUTHORS' CONTRIBUTIONS

All authors contributed equally.

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