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Market Valuation Analysis of Selected Companies in the Healthcare Industry

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Abstract: The COVID-19 pandemic was characterized as a global phenomenon by the WHO in March 2020. The pandemic had significant effects, short and long-term impacts on healthcare companies and the healthcare industry. Hence, healthcare companies should analyze their financial performance to sustain themselves in this critical period. For that reason, this paper aims to comprehend how selected companies in the healthcare industry utilize all the components in a company's financial statement to achieve outstanding company performance. Our analysis used market valuation ratios such as earnings per share (EPS) and book value per share (BVPS). To strengthen our analysis, we determine the strengths and weaknesses to assess the healthcare companies' position in the market. Thus, we will recommend strategies that will aid the company in better performance in the future.

Keywords: *Market valuation, Healthcare companies, Healthcare industry, EPS, BVPS*

1. Introduction

The global pandemic of COVID-19, caused by the severe acute respiratory disease coronavirus-2, has impacted the world with its rapid and continuous spread. According to Wen et al. (2020), the virus arose at the end of 2019 in Wuhan, China. This epidemic has had far-reaching consequences for several industries around the world. Healthcare is one of the industries that has been significantly affected. The COVID-19 pandemic has had a significant influence on the healthcare business, which is critical in providing necessary medical services to individuals (Gertz et al., 2022). The epidemic has highlighted the critical need for digital health solutions.

The healthcare industry is vital to the entire well-being of individuals and society. It includes a broad range of services, such as medical care, preventive measures, and health promotion. The healthcare industry, particularly the hospital industry, is a service-intensive economy that relies significantly on advanced medical technology and the availability of qualified healthcare workers to provide high-quality care (Mehmood et al., 2022). Further, there is a global shortage of about 7.2 million healthcare employees, and it is anticipated to expand to 12.9 million by 2035 due to the high turnover of healthcare professionals (Bhattacharya & Ramachandran, 2015). Healthcare companies are prone to grabbing big market opportunities. However, there are visible disparities in the company's market valuations. Market valuation is key for investors to measure the company's past and current performance and a tool to predict future returns.

Market valuation analysis helps investors and business strategists to assess a company's financial health, competitiveness, and development potential. According to Dosso & Vezzani (2019), the market valuation of corporate tangible and intangible assets depends on the actual performance of firms and investors' expectations of their future performance. It guides investors by showing if a company's stock is overvalued or undervalued, highlighting investment opportunities or risks. At the same time, companies need to monitor the elements of market valuation to measure their current financial standing. Thus, the company can attract more investment capital to their business.

With this regard, the paper aims to evaluate the company's market position by using the selected healthcare companies' market valuation metrics (earnings per share and book value per share) and identify their market strengths and weaknesses for strategic planning. Through this analysis, investors and healthcare peers can get practical insights and standards for industry positioning. To sum up, market valuation analysis tells a company's story beyond financial measures, affecting the business ecosystem and economy.

2. The Healthcare Industry in Malaysia

The healthcare system in Malaysia is separated into two systems, which are the public healthcare system and the private healthcare system. Each system offered healthcare and medicine services to accommodate the need of demand from low-income to high-income households. A public health care system owned and funded by the government which provides services for the general public. The medical care expenses are free of charge, minimum charge, or covered by the government fund. Whereas for private healthcare systems, the medical expenses are borne by the patients themselves. Both systems deliver excellent medical care services and facilities in their abilities. However, the outbreak of the COVID-19 pandemic affected numerous sectors, including the healthcare sector. This crisis makes the company in the sector adapt to new circumstances to remain competitive in the market.

There are three sub-sectors between healthcare companies, which are healthcare equipment and services, healthcare providers and pharmaceuticals. Manufacturers and distributors of health care equipment and providers of health care services such as lab testing services and dialysis centers are the first sub-sectors. The second sub-sector is companies' owners and operators of health care, including hospitals, clinics, nursing homes and rehabilitation centers. Examples are KPJ Healthcare Berhad and TMC Life Science Berhad. The third sector of pharmaceuticals is companies engaged in the research, development, production, or distribution of pharmaceuticals. Such companies in the pharmaceutical sector are APEX Healthcare Berhad, Duopharma Biotech Berhad and Pharmaniaga Berhad. Overall, under the healthcare sector, there was a total of 99 counters presently traded in Bursa Malaysia.

3. Contemporary Overview of Market Valuation

The market valuation ratio measures and analyzes stock prices and compares market prices with those of market competitors and against other facts and figures. These ratios track the financial performance of public companies to understand their position in the market. These ratios are employed by current and potential investors to determine whether a company's shares are overvalued, undervalued, or priced fairly.

Although a wide variety of market value ratios are available, the most popular include earnings per share (EPS) and book value per share (BVPS) ratios. Others include the price/cash ratio, dividend yield ratio, market value per share, and the market/book ratio. Each of these measures is used differently, but when combined, they offer a financial portrait of publicly traded companies. In addition, market value ratios give management an idea of what a firm's investors think of its performance and prospects. Many factors should be considered, including a range of market value ratios, when deciding about an investment. A stock with one great-looking measure could be an undiscovered gem, or it could be a flop that is underpriced for a reason.

Earnings Per Share (EPS)

EPS is the portion of a company's profit that is allocated to every individual share of the stock. It is a term that is of much importance to investors and people who trade in the stock market.

$$EPS = \frac{Earning\ after\ tax\ (EAT)}{Number\ of\ share\ outstanding}$$

This ratio serves as a valuable comparative market valuation analysis and understanding of the company's financial position in the present as well as its past performance. The higher the ratio, makes the company become more attractive to future investors as well as current investors.

Book Value Per Share (BVPS)

BVPS measures how efficiently investments and assets are used to generate income for a company. Companies that deploy their assets efficiently to generate profit will do better than those that are less efficient.

$$BVPS = \frac{Common\ Equity}{Number\ of\ share\ outstanding}$$

To evaluate the market position of a particular company, the BVPS is commonly used by shareholders and investors. Shareholders used this ratio to measure how much they would gain in the company event of liquidation. Investors can use this ratio to determine whether the company stock price is overvalued or undervalued compared to the market value per share (MVPS). Higher BVPS than MVPS are deemed as undervalued stocks.

4. Selected Companies for Analysis

Out of the many companies offering healthcare services, three (3) have been selected to be our sample. The choice of the companies fulfills our criteria, such as the product or services offered and market capitalization (CAP). Company A is a Malaysia-based investment holding company that was established in 1991. Company B is a publicly listed company which principally engaged in investment and was established in 1988. Company C is an international provider of integrated healthcare services and was established in the year 1974.

Table 1: Comparisons of Selected Companies

	Company A	Company B	Company C
Product/ Service	Manufacturing, processing, and trading of nitrile, latex, and surgical gloves	Manufactured the largest nitrile medical gloves	Provides a range of established healthcare services, including private hospitals
Market CAP (KLSE)	RM234.8 million	RM5.5 billion	RM52.7 billion

Sources: Author's Work

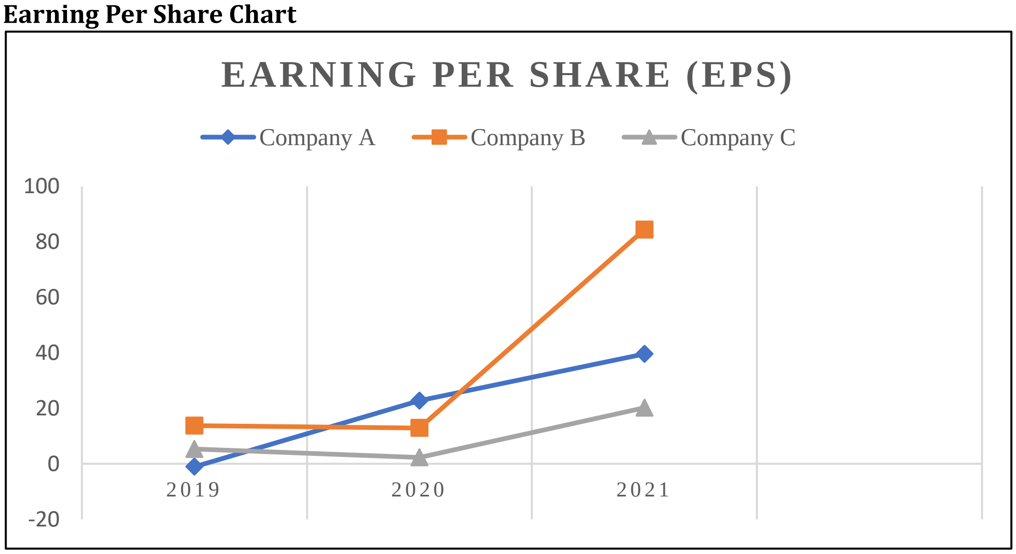
Earnings Per Share (EPS) Analysis

Table 2: Earnings Per Share Analysis

Year/Company	Company A	Company B	Company C
2019	-1.08	13.69	5.28
2020	22.78	12.88	2.27
2021	39.58	84.43	20.20

Sources: Author's Work

Figure 1: Earning Per Share Chart



Sources: Author's Work

Based on Figure 1, the EPS for three companies has an upward trend for three years of analysis starting from 2019 to 2021. Company A started with the lowest EPS at -1.08 sen per share in 2019 and drastically increased to 22.78 sen per share and 39.58 sen in 2020 and 2021, respectively. Company B and Company C also showed the same result as Company A. From 2019 to 2021, both companies recorded the lowest EPS in 2019 and the highest EPS in 2021. In 2019, Company B had the highest EPS compared to Company A and C. The ratio is RM13.69 per share. This indicates that the company gained more profit to be distributed among its shareholders. However, the EPS slightly declined in 2020 to RM12.88 per share. However, the ratio is still the highest EPS among other companies in this analysis. Meanwhile, in the year 2021, Company B recorded the highest EPS with RM84.43 per share. The result explained that company stock price is in an upward trend as higher EPS makes the company stock price increase. Meanwhile, for Company C, their EPS in 2019 was RM5.28 and declined to RM2.27 in the year 2020. As of 2021, Company C drastically increased its EPS to RM20.20. An increased ratio of EPS illustrates that the company will increase its dividend payment, and this element is important for the investor in making prudent investment decisions. By comparing the EPS among the company, investors can choose the highest EPS as it reflects the promising profit of the company as well as a good investment choice.

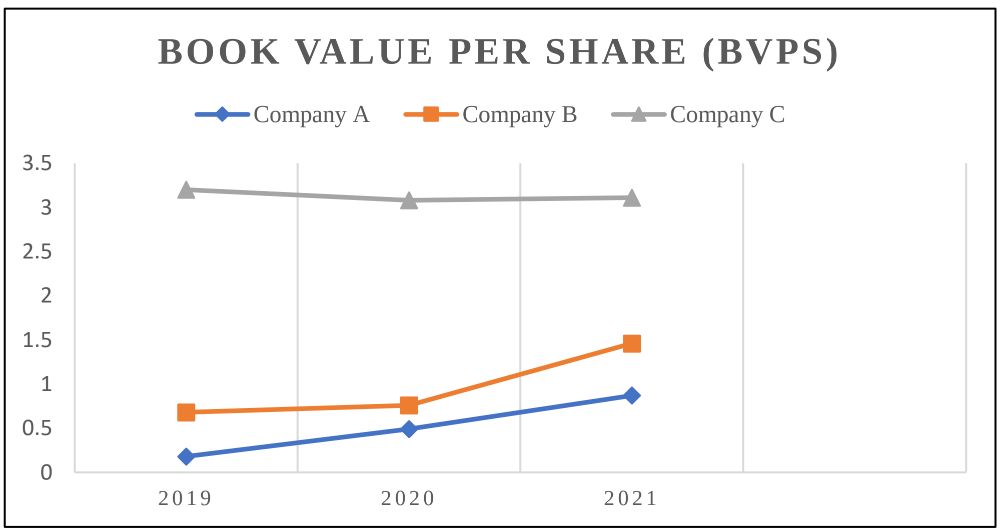
Book Value Per Share (BVPS) Analysis

Table 3: Book Value Per Share Analysis

Year/Company	Company A	Company B	Company C
2019	0.18	0.68	3.20
2020	0.49	0.76	3.08
2021	0.87	1.46	3.11

Sources: Author's Work

Figure 2: Book Value Per Share Chart



Sources: Author's Work

Based on Figure 2, the comparative figure for the three companies' book value per share (BVPS) exhibited a similar trend except for a slight decline for Company C in 2020. The analysis for Company A showed a positive trend in BVPS, as they had 0.18 sen in 2019, which increased by 0.31 sen to 0.49 sen in 2020. The trend keeps increasing, as Company A had 0.87 sen for the year 2021. This means that in 2021, each stock of Company A would be worth RM0.87 if the company liquidated. For Company B, their BVPS is higher than Company A by 0.5 sen, with 0.68 sen in 2019. followed by a slight increase in BVPS in 2020 with 0.76 and a drastic increase to RM1.46 per share for 2021. An increasing trend in the BVPS of the company will attract more investors as they consider the company stock to have a good potential investment return. For Company C, their BVPS ratio is higher as compared with Company A and B, as the ratio for 2019 is RM3.20 per share. Company C BVPS will fall slightly to RM3.08 in 2020 before rising to RM3.11 in 2021. To make an informed investment decision, prospective investors should compare the BVPS with the stock price of a particular company. If the BVPS is higher than the stock price, the stock is deemed undervalued as it will cost less than the assets. Prospective investors should buy undervalued stocks, as they can buy them at a cheaper price and gain a higher return.

5. Discussion and Recommendations

From the result of market valuation measurement, this analysis highlighted the strengths and weaknesses of the selected companies by referring to Table 4. By using EPS and BVPS as the main indicators of the analysis, each company has its unique ratio as it has been influenced by several market factors.

Table 4: The Strengths and Weaknesses of the Selected Companies

	Company A	Company B	Company C
Strengths	Consistent upward trend of BVPS	Gained the highest EPS	Achieved the highest BVPS
Weaknesses	Recorded the lowest EPS	Recorded a minimal increase in BVPS	Recorded inconsistent trend of EPS

Sources: Author's Work

An upward trend of BVPS is the strength of Company A. The BVPS ratio provides investors with a measurement of the company's potential profitability of the investment. It is suggested for investors to buy the undervalued stocks as it is a good investment choice. As for weaknesses, their EPS is the lowest among the other companies. A low ratio of EPS gives the impression that the investment is riskier than one with a high ratio of EPS. This is because the investors will gain less when the company distributes some of its profits. At the same time, low EPS indicates low dividend gains for shareholders. As the measurement of EPS used the amount of profit divided by the number of outstanding shares, these two elements contributed to the high or low ratio. Low EPS happened when the company had a lower profit, but the number of outstanding shares remained unchanged. Otherwise, low EPS is due to stagnant profit and increased outstanding shares.

Company B boasts a high EPS in comparison to its competitors. Using EPS as a measurement tool for market valuation helps investors decide the stock value of an investment. At the same time, high EPS will drive the share price to increase. There are many significant factors contributing to high EPS, but the main contributor is the high profit earnings of a particular company. Prospective investors can monitor the company's performance by looking at their respective EPS and the share price. If the company has a steady stream of income, its EPS will increase year by year. This element can be used to predict the profit of a company in the future. Moreover, high EPS is likewise influenced by the number of outstanding shares of the company. A lower number of outstanding shares with high earnings contributes to high EPS. At the same time, a high number of outstanding shares also contributes to a significant increase in EPS, but with a greater increase in profit for the company. As for Company B, the BVPS ratio recorded a minimal increase in value. Even though their BVPS keeps increasing year by year, the increasing margin is considered small. The ratio of BVPS can be used to determine the level of risk in investment. Company stock with high BVPS is less risky than low BVPS.

This analysis highlighted high common equity as the strength of Company C. Prospect and current investors can monitor the potential returns of share investment by the amount of common equity. The amount of common equity included the amount of common stock, retained earnings and paid-in capital of the specific company. Specifically, as the common equity rises, the return to common stockholders can be expected to rise. Potential common stockholders can consider investing in the company by calculating the amount of common equity. Companies need to monitor their amount of common equity to remain competitive and attractive to investors in the stock market. At the same time, an excellent amount of common equity will benefit companies when their cash flow is inadequate. Company C recorded an inconsistent trend of EPS. To maintain as a suitable investment option, the company must monitor their EPS. An inconsistent EPS is usually not preferred by the investors, especially the conservative type of investors.

The company's market value in operating the business can be demonstrated through market valuation. As a result, the company must maintain consistent growth in revenue, earnings, and dividends paid. The company needs to keep up with consistent growth using financial controls, which allow it to monitor cash inflow and cash outflow (Lieberman, 2020). This is because reliable financial controls are one of the main value drivers for the company as they protect the assets of the business (Safina, 2021). Through financial controls, the company will be able to determine its key performance indicators (KPIs) and consistently follow the KPIs. In addition to the financial controls and KPIs, the company can prove its growth as a promising investment choice.

Conclusion

In assessing the financial health and potential profitability of companies, various metrics offer insights into their strengths and vulnerabilities. Company A's strength is evident in its upward BVPS trend, indicating promising profitability potential. However, its lower EPS compared to other firms signifies potential investment risks. Company B, distinguished by its high EPS, suggests a strong market position and likely share price growth, even though its BVPS growth is modest. Company C's high common equity presents an attractive proposition for potential returns to stockholders, but its fluctuating EPS emphasizes the necessity for stability to attract discerning investors. Across the board, maintaining consistent growth in revenues, earnings, and dividends is essential. Investors and companies alike must remain vigilant to these indicators to mitigate the risk exposure of the stock market efficiently.

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