

Research on the Stock Valuation of S.F. Holding

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Abstract: The development of the network and the completion of the logistics infrastructure have provided a development platform for China's express delivery industry, which is considered to be an important part of the economic system. S.F. Holding is a leader in the Chinese express delivery industry. Therefore, this paper provides help for investors to make reasonable and appropriate decisions by using the SWOT and PEST model to evaluate the investment value of S.F. Holding, and to improve the return of the capital market. At the same time, it aims to help the managers of S.F. Holding to recognize their own value and discover their potential risks in time.

Keywords: S.F. Holding, capital asset pricing model, stock valuation, investment risk

1. Introduction

The rapid explosion of e-commerce has provided motivation for the domestic express industry, which is considered as a significant component of the economic system. Then, S.F. Holding Co., which owns unique and comprehensive logistics resources, plays a leading role in the industry. To offer the basis for investors, this paper aims to evaluate the investment value of S.F. Holding by combining with its internal situation, industry environment and suitable valuation methods, which is finally beneficial to make a correct judgement. Research significance can be attributed to two aspects. From investors' perspective, research facilitates investors to make reasonable and appropriate decisions, thus improving return in the capital market. From an enterprise's perspective, managers can clearly recognize own value and timely discover potential risk, establishing a theoretical foundation for internal and external business measures.

Considering that there is fierce competition in the industry, which not only contains traditional firms but also includes proprietary ones like JD.com, Suning, the study that looks at one single company is not common enough [1]. On the other hand, investors are unable to receive objective and precise appraisal based on the disclosure information such as annual report, audit report or any other relevant financial statements. The paper adopts the top-down analysis method, starting from the national macro environment, then analyses industry background, and eventually calculates key metrics that can reflect the economic essence of S.F. Holding, so as to draw a more scientific conclusion.

2. Fundamental Analysis

2.1. Macro Environment

PEST model is utilized in this part, studying the macro environment from four dimensions that are politics, economy, society, and technology respectively.

2.1.1. Politically Speaking

The Fourteenth Five-Year Plan has indicated that developing logistics and other service industries are the primary mission of contemporary society, which can be accelerated by intellectualization and digitization [2]. Especially during the COVID-19, a quantity of proprietary firms that contain S.F. Holding are actively promoted by the China Post Bureau and Ministry of Communications [3].

2.1.2. Economically Speaking

China's GDP has experienced a continuous upward trend, rising from 83.20 trillion in 2017 to 101.60 trillion in 2021. Beyond that, per capital disposable income reached 32,200 yuan in 2020, which increased by 7.4% from the last year [4]. Therefore, consumption ability climbed remarkably, bringing out much impetus for the further progress of express industry.

2.1.3. Socially Speaking

The thriving online shopping furnishes a foundation for the express industry. According to the historic data, even though pandemics resulted in the stop of work and production and the suspension of classes and schools, the business volume showed a steady tendency, starting from 40.06 billion in 2017 to 108.30 billion in 2021[5].

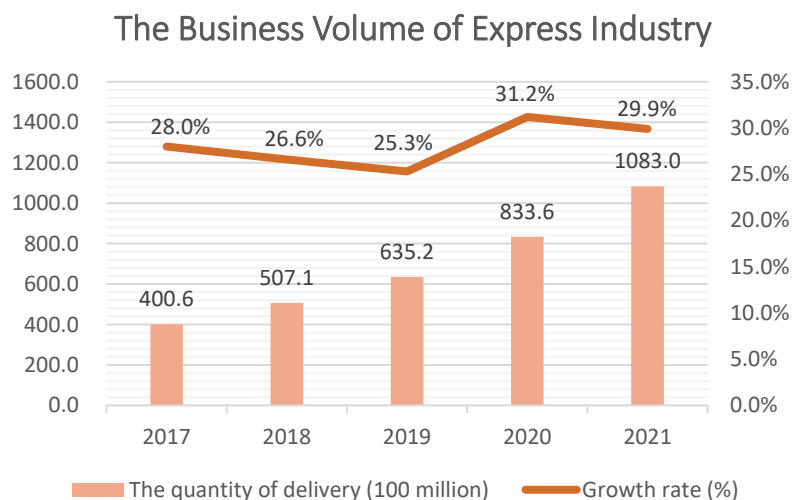


Figure 1: The business volume of express industry.

2.1.4. Technologically Speaking

The number of patents applied in daily operations also have been increasing year by year. Not only do patents involve monitoring technique of unmanned aerial vehicle, but also owns various types of mobile cold-storage to keep food fresh.

2.2. SWOT Analysis

After having finished the PEST analysis of whole industry, the paper starts to demonstrate the strengths, weaknesses, opportunities, and threats of S.F. Holding.

2.2.1. Strengths

The most prominent feature of S.F. is fast speed and high quality. Its transportation is achieved by airplanes which can guarantee the punctual arrival of goods, while rivals frequently use ships or trucks. Secondly, technology is extremely advanced since S.F. has already taken advantage of big data and cloud computing to come up with dozens of solutions, which are warehouse management, sales prediction, and automatic analysis separately. Last but not least, scale economies do exist for the company, as S.F. has a high market share, which tends to lower production costs and thus promote economic interests. Thirdly, S.F. always provides a high level of treatment for equipment maintenance and staff welfare, the capital investment would be substantial.

2.2.2. Weaknesses

It's universally acknowledged that the relationship between express companies and e-commerce platforms is extremely close, for the former determines the order cost of the latter, while the latter is the business source of the former. At present, Alibaba, JD.com and Pinduoduo occupy the major e-commerce market in China, which all have distinctive categories and user groups [6]. Although S.F. Holding is the best match for JD.com, the latter which sets about building own logistics becomes a strong competitor, squeezing the market share of S.F. Holding. Hence, the lack of support of e-commerce platform is one of the most significant weaknesses. The business express is originally the foundation of S.F. Holding, nevertheless, as it mentioned earlier, the growing ability of S.F. Holding has been decreasing with the join of JD logistics, which leads to the less development potential of S.F. Holding. What's more, it's common to see that regional distinction occurs between the eastern and western parts of China, revealing that the logistics network is densely distributed in the east while that in the west is relatively sparse. Thirdly, S.F. indirectly poses threats to the environment for the excessive use of plastics and cartons, which are non-recyclable and non-biodegradable, causing great pressure on the environment people to live in.

2.2.3. Opportunities

As the e-commerce gradually blossoms, the overall business volume of express delivery is expanding at a terrific rate, demonstrating that logistics enterprises have huge potential to embrace this tide. At the same time, government tends to recommend private-owned corporations, encouraging benign competition and mutual cooperation without any discrimination. Officials wish that no matter private or state-owned, all businesses have an equal chance. When compared with multinationals, local ones have a cost advantage, which shows that the initial price of express is cheaper, then an increasing number of clients are willing to choose them.

2.2.4. Threats

The Double Eleven or year-end promotion, which are Chinese versions of Black Friday, are peak seasons of online shopping. Therefore, the surge in business volume tests the capacity of processing and transporting during rush hour. To some extent, it's difficult to ensure the quality of goods and deliver them to consignees in time. Once consumers discover that the speed or safety of S.F. significantly diminishes, their trust or loyalty will be greatly reduced. On the other hand, as long as there are enough assets as support, the newly-establishing firms can undertake tasks, so that the

threshold to enter this industry is completely lower than others, which is bound to have a certain impact on the original companies. Thirdly, WTO speeds up the entry of overseas competitors who have a perfect management system and sophisticated equipment into the domestic market.

2.3. Key Metrics

Actually, according to objective statistics, key metrics assist investors to understand financial performance and how shareholders view such performance. Metrics could be divided into four parts to measure four abilities, which are debt-paying ability, operation ability, profitability, and growth ability. This paper will select one or two metrics of each ability to elaborate S.F. Holding's performance.

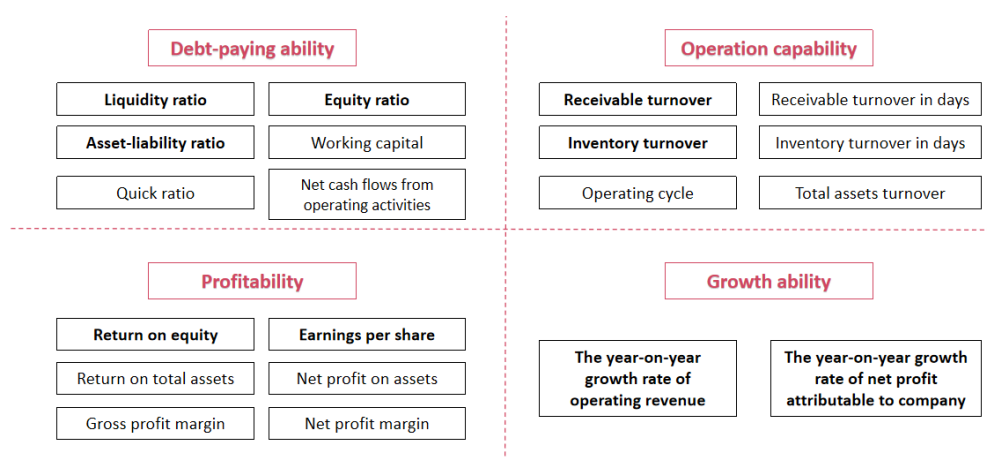


Figure 2: Key metrics to measure four abilities.

2.3.1. Debt-paying Ability

Liquidity ratio, equity ratio, and asset-liability ratio are used to expound debt-paying ability. Liquidity ratio ($\text{Liquidity ratio} = \text{Current assets} / \text{Current liabilities}$) that reflects a company's ability to pay back short-term liabilities showed a downward trend, decreasing from 1.42 in 2017 to 1.24 in 2021[7]. Equity ratio ($\text{Equity ratio} = \text{Total liabilities} / \text{Total equity}$) that reflects the relative proportion of capital provided by creditors to shareholders, rising up to 135.1% in 2021. A high equity ratio justifies that S.F. Holding has been aggressive in financing its growth with debt, so it has less ability to repay long-term debt at present. Asset-liability ratio ($\text{Asset-liability ratio} = \text{Total liabilities} / \text{Total assets}$) increased steadily, starting from 46.23% in 2017 to 53.35% in 2021.

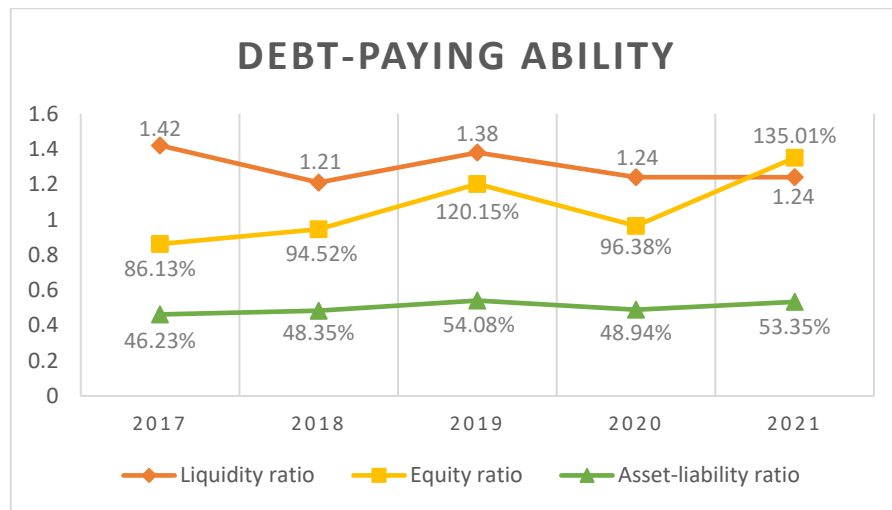


Figure 3: Debt-paying ability of S.F. Holding.

2.3.2. Operation Capability

For the operation capability, the paper chooses receivable turnover and inventory turnover. Inventory turnover ($\text{Inventory turnover} = \text{Selling expenses} / \text{Average inventories}$) decreased to minimum value of 109.02 in 2019 before growing up to maximum value of 143.30 in 2021. Receivable turnover ($\text{Receivable turnover} = \text{Sales revenue} / \text{Average accounts receivable}$) declined constantly, proving that company's average speed of collection is long.

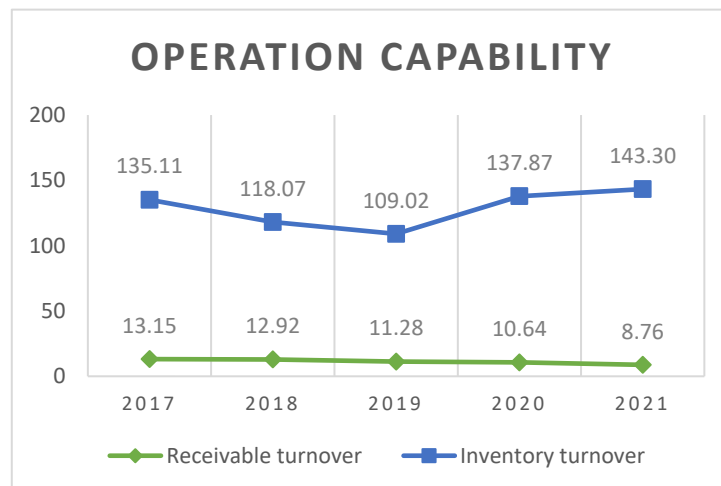


Figure 4: Operation capability of S.F. Holding.

2.3.3. Profitability

Earnings per share ($\text{Earnings per share (basic)} = \text{Net income} / \text{Weighted average shares}$) which represents the value of each outstanding share of common stock, rose substantially from 1.12 in 2017 to 1.64 in 2020, which was followed by dropping to only 0.93 in 2021. Return on equity ($\text{Return on equity} = \text{Net income} / \text{Shareholder's equity}$) that reflects the efficiency of shareholders' funds decreased continuously, declining from 17.88% in 2017 to 6.13% in 2021, which comes to a conclusion that the profitability of S.F Holding is unstable and weak.

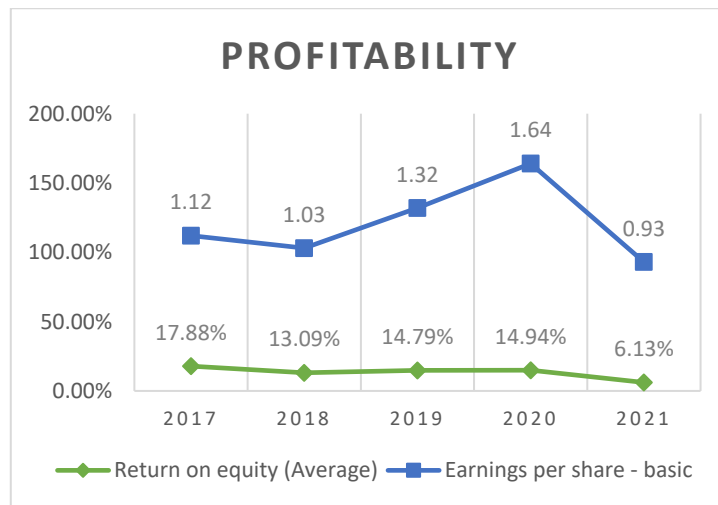


Figure 5: Profitability of S.F. Holding.

2.3.4. Growth Ability

When measure growth ability, the paper prefers to a year-on-year growth rate that is calculated by comparing two years of data. The significant increase could be easily found in the growth rate of operating income, which ranges from 23.99% to 37.25%. Net profit attributable to the company experienced a negative growth trend, which especially reduced sharply to minus 41.73% in 2021, indicating that S.F. Holding may enjoy high financial risk and exist several problems in its daily operation.



Figure 6: Growth ability of S.F. Holding.

Above all explanation about the key index, here come four brief conclusions. Firstly, the enterprise's ability to pay debt no matter short-term or long-term is not strong. Secondly, the occupancy level of inventory is relatively low, demonstrating that liquidity of S.F. is splendid. However, the reason why receivable turnover decreases can be attributed to the suspension of production or any other relevant actions about quarantine, making suppliers unable to receive abundant working capital and pay accounts payable to S.F. Holding in time. Fourthly, based on the image of growth ability, the operating revenue has been climbing while profitability is erratic, so researcher still have to study more information to precisely tell the whole situation.

3. Conclusion

Through the analysis and comparison of the four capabilities of S.F. Holding, namely solvency, operational capability, profitability and growth capability, S.F. Holding's current operations have always been in a state of profitability. Its stock price is also in a stable state, and the market competitiveness and market value are not growing steadily with the development of the company.

However, the analysis method of this paper only discusses it through the market perspective, instead of combining multiple methods to analyze it from different perspectives, resulting in a less reasonable conclusion. COVID-19 is also a potential factor, for people don't know when, where, and under what circumstances it will spread on an enormous scale. It is conceivable that the China economy and even other developed countries are likely to be deeply influenced, not to mention the high-risky stock market. In a word, even if stocks of S.F. Holding have investment value, investors don't need to put all eggs in one basket, suggesting that other promising industries are worth funding as well.

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