Investors' Chronicle | Alpha

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AlphaScreens: Cleaning up value

28 April 2023

Filtered value - how many pitfalls can be dodged?

Checking solvency, liquidity and growth prospects is essential to try and avoid value traps - those stocks that are cheap for a reason and could get cheaper. Worries around the banking sector continue to cast a shadow, so there are some risks which can drag the whole market lower, but that also means shares get overly punished, leading to opportunities for investors.

Report author: James Norrington

Another week, another banking drama. The travails of US-listed **First Republic Bank (US:FRC)** remind us even stocks that fall more than 90 per cent in a year can get cheaper. Value investors must protect themselves by doing their due diligence on companies, but before getting to that stage of the investment process, the value screens that highlight what's tantalisingly cheap can be refined to also look at the balance sheet strength, operational efficiency and growth prospects of companies.

Financial companies must be split out as the unique features of their balance sheets are incompatible with the sorts of solvency and liquidity ratios we must apply to other sectors. More applicable ways exist to value banks and insurance companies, which incidentally, paint a more subtle picture than the lazy argument that it is time to buy banks just because they have been heavily sold.

Non-financial sector shares

Our analysis continues from our filtering of the cheapest UK stocks (split into large-cap, mid-cap and small-cap main market shares; and Aim companies above £35mn in size) and large US stocks (only S&P 500 constituents). Non-financial companies in the cheapest quintile of a composite ranking - based on forward current year price-to-earnings, enterprise value to Ebitda, price-to-book, forecast dividend and free cash flow yields - are now given a next stage of examination.

Three simple tests are made against companies, not to exclude them but to act as pointers where to focus research. These are a forecast free cash flow yield above the

median of their segment of the wider market (for example UK large caps should have FCF yield above 5.7 per cent); seven times coverage of interest expense by Ebita (earnings before interest, taxes and amortisation); and net debt below 20 per cent of market capitalisation.

A fourth test is whether companies score above seven out of nine on the famous Piotroski scorecard. It is named after the US accounting professor who created it and the tests (detailed in the appendix below) are focussed on financial strength - liquidity and solvency - of companies, their operational efficiency as well as sales and margin growth.

Finally, as one of the big risks of value investing is companies in serious financial distress, we also make use of the Altman Z-score (brainchild of a New York business school professor) to throw up potential red flags. This looks at a combination of measures focused on working capital position, retained earnings, profitability, solvency and sales to estimate the likelihood of bankruptcy.

When it was formulated in the late 1960s, Altman posited a score of below 1.8 is a sign bankruptcy is dangerously likely, although that guidance has been revised and scores close to zero can be taken as the crunch point. For the purpose of our model, we exclude any company with an Altman z-score of 0.5 or lower.

Financial shares

For companies in financial services industries and especially banks, an important metric is their return on equity (ROE). In the case of banks, whether they can make more than the implicit cost of raising those funds is important in deciphering a fair value for their shares.

With all the uncertainty that has been affecting banks since Silicon Valley Bank (SVB) failed, share prices have tanked. On the one hand that means they are cheap, but on the other hand, it means the implied cost of equity for those businesses has risen. In several cases the ratio of ROE to COE is below one.

One of the core tenets of value investing is that a companies' assets are being valued at below their true worth. In the case of banks, the assets are loans made to customers and the economic value is the interest income they generate. Assuming that the ROE/COE ratio is representative of the bank's ability to make a profit on their assets, then multiplying the book value of assets per share by this ratio ought to offer insight into what the shares are worth. An excellent IC article by Phil Oakley a few years ago explained how this works.

For several banks, especially in the United States, even with the ROE/COE below one, the implication is that shares are trading at a heavy discount. But there are some big leaps of faith if making a case to buy on this basis. Firstly, the asset quality of the banks may be called into question if recessionary pressures or the cost of refinancing at higher interest rates causes borrowers to default.

Secondly, there is reason to question the liquidity of the banks' own equity funding. As

SVB proved, even holding US Government Treasury bonds (which are free of default risk) can result in stress if there isn't sufficient short-term funding to cover capital outflows. These concerns mean that investors are demanding a much higher risk premium. This can become a vicious circle, with the very fact bank shares are cheap being a drag on their business growth prospects.

UK large-cap shares

UK large-cap filtered value ex financials

Name	Ticker	Share price (last close)	Mkt cap (£mn)	3-mth share price mom	Fwd 12-mth PE	Fwd 12-mth EV/Ebitda	Fwd 12-mth P/B	Fwd 12-mth DY	Fc Free cash flow yield	Altman Z	Tests failed
British American Tobacco	BATS	2963	66251	-2%	7.4	7.2	0.8	8.4	13.8	1.6	/Net debt/
BP	BP	524	92402	7%	6.4	3.7	1.5	4.2	14.7	1.9	/Net debt/Piotroski/
Shell	SHEL	2401	164259	1%	7.2	3.9	1.0	4.0	14.6	2.4	/
Glencore	GLEN	473	59344	-14%	8.3	4.7	1.6	9.2	14.5	3.3	/Net debt/
Anglo American	AAL	2427	32463	-32%	7.5	3.7	1.2	5.5	8.3	2.8	/Piotroski/
Airtel Africa	AAF	117	4412	-1%	7.8	3.2	1.3	4.0	26.7	1.8	/Net debt/
DS Smith	SMDS	305	4196	-14%	8.1	5.0	0.9	6.0	8.2	1.5	/Net debt/
Imperial Brands	IMB	1979	18255	-2%	6.6	6.4	2.6	7.6	14.1	1.3	/Net debt/
Kingfisher	KGF	256	4966	-6%	10.1	5.6	0.8	4.7	8.2	2.4	/Int Cov/Piotroski/
Rio Tinto	RIO	5044	63092	-20%	8.5	4.5	1.8	7.1	7.8	2.7	/Piotroski/
BT Group	BTA	159	15742	22%	8.5	4.5	1.0	4.9	7.2	1.3	/Int Cov/Net debt/Piotroski/
Barratt Developments	BDEV	494	4853	6%	11.0	6.5	0.9	5.4	9.0	3.8	/Piotroski/
J Sainsbury	SBRY	274	6458	9%	13.4	5.5	0.8	4.6	5.0	1.6	/FCF yield/Int Cov/Net debt/Piotroski/
Taylor Wimpey	TW	126	4441	6%	13.6	7.5	1.0	7.4	6.8	4.0	/
Mondi	MNDI	1242	6031	-19%	10.4	5.9	1.1	4.9	5.8	3.3	/

Sources: FactSet, Investors' Chronicle

UK large-cap value financials

Name	Ticker	Share price (last close)	Mkt cap (£mn)	3-mth share price mom.	Fwd 12-mth PE	Fwd 12-mth P/B	Fwd 12-mth DY	ROE	Cost of equity	ROE/ COE
NatWest	NWG	272	25941	-12%	5.9	0.7	6.7	10.2	8.8	1.2
HSBC	HSBA	575	114958	-4%	6.4	0.8	8.4	8.9	7.9	1.1
Lloyds Banking Group	LLOY	49	32228	-7%	6.4	0.7	5.9	11.3	9.0	1.3
Legal & General	LGEN	235	14037	-10%	6.7	1.1	8.8	19.8	10.1	2.0
Barclays	BARC	162	25194	-13%	4.8	0.4	5.6	9.0	10.1	0.9

Sources: FactSet, Investors' Chronicle

Non-financial UK large-caps

Much has been made about the cheapness of the UK stock market with the higher costs of capital implied by the so-called UK discount cited as a reason for some technology firms preferring to seek US listings. London's difficulty in wooing the bright young things that hope to shape the 21st century reinforces its bias towards old economy companies. The fact that several of the biggest names on the UK market are synonymous with activities and industries frowned upon in the era of environment, social and governance (ESG) has potential to suppress valuations.

Sin stocks certainly loom large in our large cap UK value screen, with **British American Tobacco (BATS)** and **Imperial Brands (IMB)** ranking highly thanks to their low valuation multiples and high dividend yields. Long-term investors still find it a struggle to believe that these businesses have a bright future, given the decline of smoking in core markets and increased ESG and regulatory scrutiny on attempts to peddle their harmful wares in emerging markets. Although boosted somewhat in 2022 by short-term income-seekers tempted by the dividends, the market value of shareholders' equity is still low relative to net debt for both companies.

Negative working capital movements (current assets minus current liabilities was negative in the last completed financial year), are a drag on the Altman scores of these companies but the positive and improving cash flows from operations for both companies attests to the likelihood of bankruptcies being remote. Both companies pass at least seven out of nine Piotroski tests (see appendix below), but the fact returns on assets are not improving points to the structural challenges for the industry.

We don't exclude large cap companies based on the tests they fail but where they come up short is a flag for further research. The table above notes which companies fail more than two Piotroski tests and the worst performers on this criteria (passing just four tests out of nine each) are miners **Anglo American (AAL)** and **Rio Tinto (RIO)** and home improvements/DIY sales group **Kingfisher (KGF)**.

Kingfisher shares have derated in 2023 on the back of lower revenues and profits coming off of the Covid home improvement boom highs. The question is now whether it is back to an attractive valuation relative to its future growth prospects. The Piotroski tests it fails relate to the decline in sales and Ebit (earnings before interest and taxes) margins against some fairly robust prior year comparators and also to a slight increase in debt relative to total assets. This is, however, hardly a business in financial distress and whether it is good value should depend on the price being asked for future earnings growth. Predictions for the current full year do factor in decline but for the following year a return to double-digit earnings growth is the consensus.

That translates to a two year forward PE of 10.4 and a price to earnings to growth ratio of 0.9. Overall, that suggests the stock isn't overpriced but given the potential for recession to disrupt sales and higher inflation to erode margins, there seems no rush to buy KGF now.

In the case of the miners, the Piotroski scores are let down by declining returns on assets, sales and Ebit margins; and rising debt. These are the hallmarks of a capital intensive yet cyclical industry with the world facing difficult economic times. Anglo American has a more diverse profit base than Rio, which is heavily exposed to iron ore prices but both have fallen in price significantly and the dips may now have been deep enough to make it worthwhile building up positions.

The UK-listed oil majors are prominent. **BP (BP.)** has seen a slight decline in its return on assets over the last two financial years which accounts for it being flagged for a Piotroski score of six out of nine, and it's net debt is above a fifth of the value of shareholder equity (it's about a third now). These are flags but not overly concerning. **Shell (SHEL)** doesn't fail any tests.

Gas prices have collapsed from 2022 highs and the oil price (Brent crude at c.$79 and WTI c.$75 per barrel, respectively) is at a difficult point to call, which makes it by extension challenging to interpret the current share prices of BP and Shell as cheap or fair. There is an argument, advanced by hedge fund manager Nelson Wu of Open Square Capital, that weak inventories mean that even a recession shouldn't heavily dent prices further from here given the control the Saudis are exerting on the oil price. For longer term energy company investors, the key is whether a more pragmatic and circumspect

approach to the energy transition will ensure that value continues to be generated from asset bases while being ready to play a part in a greener future.

Financial UK large-caps

Encouraging earnings updates this week from **Barclays (BARC)** and **NatWest (NWG)** demonstrates that there are some benefits to higher interest rates that can buoy banking optimists. The positive impact being able to charge borrowers more while not fully passing on higher rates to depositors boosts banks' profits. Encouragingly, the £70mn charge NatWest disclosed it had taken in preparation for bad debt was lower than analysts expected. If fears for the economy prove overdone, alongside UK banks being overly punished for jitters around the travails of marginal (but not insignificant) US lenders, then bank share prices could recover their poise from earlier this year.

On a note of caution, however, although the funding and loan quality risks may not materialise to the extent some market participants had feared, the onus is on prudence. Therefore banks will be conservative in their strategy and be under scrutiny when it comes to their use of leverage, all of which means that if banks' return on shareholders' equity is to progress, it is likely to do so steadily rather than spectacularly.

UK mid-cap, small-cap and Aim shares

No medium-sized financial companies made it through our screening process as we stipulated a minimum return on equity of 8 per cent to be considered. For non-financial shares we also took a tougher line on smaller companies stipulating they must have a Piotroski score of at least six, net debt must be less than shareholder equity and the Altman score must be above 0.8 to even make the list.

Energy companies are frequently shown as being cheap but the financing and capital structures of these businesses must be assessed more thoroughly. If the oil price doesn't fall too far in any potential slowdown they could well be considered cheap stocks, but that isn't certain. Where investors have a conundrum is in the capital structure of businesses that face rising interest rates and political pressure to punitively tax their gains from when energy prices were high.

As with banks, energy companies have some industry specific ratios that investors should look at. These include the trends in the ratio of enterprise value to debt-adjusted cash flow - which takes into account the cash available to all providers of capital (debt and equity) and the intensive working capital requirements of these businesses. Then there is the question of proven and probable reserves - those resources that are economically viable to be extracted. With fluctuations in the price of energy and the cost of capital, the value of assets can alter materially, so serious further research is needed before buying mid- or small-cap energy explorers on the strength of a value screen.

UK mid-cap filtered value ex financials

Name	Ticker	Share price (last close)	Mkt cap (£mn)	3-mth share price mom	Fwd 12-mth PE	Fwd 12-mth EV/Ebitda	Fwd 12-mth P/B	Fwd 12-mth DY	Fc Free cash flow yield	Altman Z	Tests failed
Kenmare Resources	KMR	464	440	-3%	3.9	2.4	0.5	7.2	27.2	3.8	/
Ithaca Energy	ITH	155	1560	-18%	3.3	1.5	0.6	17.2	13.4	1.6	/Net debt/
Ferrexpo	FXPO	109	651	-36%	7.1	3.5	0.6	10.4	16.6	10.3	/Piotroski/
Harbour Energy	HBR	240	1983	-24%	3.3	1.2	2.3	8.4	43.5	1.1	/Net debt/
Drax Group	DRX	633	2541	-1%	5.4	3.3	1.3	3.8	22.5	2.2	/Net debt/
Morgan Sindall	MGNS	1698	804	4%	7.6	3.1	1.4	6.1	8.2	3.1	/
Redde Northgate	REDD	371	850	-14%	6.9	3.9	0.8	6.3	2.1	1.9	/FCF yield/Net debt/
Robert Walters	RWA	411	308	-18%	7.8	3.5	1.4	6.5	7.1	4.4	/Piotroski/
Vp	VP	645	259	-8%	7.8	4.2	1.4	6.2	8.1	2.0	/Net debt/
Wincanton	WIN	213	265	-28%	6.8	4.3	2.1	6.2	7.4	2.4	/
Vesuvius	VSVS	396	1075	-5%	8.8	5.7	0.8	5.8	9.4	4.5	/
Halfords Group	HFD	207	454	3%	11.2	4.2	0.7	4.1	8.1	2.0	/Net debt/
ITV	ITV	81	3252	-3%	8.8	6.6	1.7	6.2	8.9	2.4	/Net debt/Piotroski/
Ecora Resources	ECOR	118	303	-22%	8.4	5.7	0.8	5.7	7.1	2.6	/
Inchcape	INCH	796	3285	-13%	9.4	5.7	1.9	4.3	13.8	2.1	/Piotroski/
Bellway	BWY	2384	2929	8%	10.7	6.5	0.8	5.1	4.6	4.1	/FCF yield/Piotroski/
Greencore Group	GNC	84	419	13%	9.6	5.1	0.9	1.7	6.4	1.9	/Int Cov/Net debt/
Forterra	FORT	190	405	-10%	9.6	5.6	1.7	5.9	2.7	4.0	/FCF yield/Piotroski/

Sources: FactSet, Investors' Chronicle

UK small-cap filtered value ex financials

Name	Ticker	Share price (last close)	Mkt cap (£mn)	3-mth share price mom.	Fwd 12-mth PE	Fwd 12-mth EV/Ebitda	Fwd 12-mth P/B	Fwd 12-mth DY	Fc Free cash flow yield	Altman Z	Tests failed
Costain Group	COST	58	159	20%	5.3	1.1	0.6	3.7	10.4	4.0	/
Norcros	NXR	186	166	-14%	5.7	4.4	0.7	5.2	13.0	3.0	/Net debt/
Speedy Hire	SDY	31	145	-24%	6.1	3.1	0.7	8.2	10.6	1.9	/Int Cov/Net debt/
Pendragon	PDG	18	249	-11%	5.9	3.0	0.9	0.0	8.1	2.6	/Int Cov/Net debt/

Sources: FactSet, Investors' Chronicle

UK small-cap value financials

Name	Ticker	Share price (last close)	Mkt cap (£mn)	3-mth share price mom.	Fwd 12-mth PE	Fwd 12-mth P/B	Fwd 12-mth DY	ROE	Cost of equity	ROE/ COE
ASA International	ASAI	86	86	-13%	3.6	1.1	8.6	19.2	5.78	3.3
Secure Trust Bank	STB	650	122	-8%	3.7	0.3	7.0	9.4	9.70	1.0

Sources: FactSet, Investors' Chronicle

UK Aim filtered value ex financials

Name	Ticker	Share price (last close)	Mkt cap (£mn)	3-mth share price mom.	Fwd 12-mth PE	Fwd 12-mth EV/Ebitda	Fwd 12-mth P/B	Fwd 12-mth DY	Fc Free cash flow yield	Altman Z	Tests failed
Central Asia Metals	CAML	207	376	-27%	6.9	3.5	1.2	8.2	16.2	6.0	/
Pan African Resources	PAF	17	383	-7%	4.9	3.0	1.0	5.3	1.9	3.9	/FCF yield/Piotroski/
Alumasc Group	ALU	157	57	-5%	6.3	4.6	1.6	6.8	16.3	3.5	/Piotroski/
Epwin Group	EPWN	77	111	1%	7.8	5.7	1.0	6.5	16.8	2.2	/Piotroski/
DX (Group)	DX	27	162	-14%	7.0	3.9	2.3	6.2	18.4	3.1	/
Billington Holdings	BILN	450	58	45%	9.0	4.6	1.4	4.4	9.3	4.1	/

Sources: FactSet, Investors' Chronicle

UK Aim value financials

Name	Ticker	Share price (last close)	Mkt cap (£mn)	3-mth share price mom.	Fwd 12-mth PE	Fwd 12-mth P/B	Fwd 12-mth DY	ROE	Cost of equity	ROE/ COE
Arbuthnot Banking Group	ARBB	925	139	6%	4.9	0.6	4.9	8.0	6.1	1.3
LendInvest	LINV	81	113	-4%	8.4	1.4	6.0	14.8	5.1	2.9

Sources: FactSet, Investors' Chronicle

US S&P 500 filtered value ex financials

Name	Ticker	Share Price $ (last close)	Mkt cap ($mn)	3-mth share price mom	Fwd 12-mth PE	Fwd 12-mth EV/Ebitda	Fwd 12-mth P/B	Fwd 12-mth DY	Fc Free cash flow yield	Altman Z	Tests failed
Viatris	VTRS	9.26	11082	-22%	3.2	5.7	0.5	5.4	21.3	1.0	/Int Cov/Net debt/
AT&T	T	17.61	125557	-12%	7.2	6.8	1.1	6.3	13.7	0.6	/Int Cov/Net debt/Piotroski/
Phillips 66	PSX	97.74	45342	-10%	6.8	5.4	1.3	4.3	15.5	3.9	/Net debt/
Valero Energy	VLO	114.64	42549	-20%	5.5	3.9	1.5	3.6	19.2	5.5	/Net debt/
Hewlett Packard	HPE	14.26	18479	-12%	6.8	5.1	0.8	3.4	10.2	0.7	/Int Cov/Net debt/Piotroski/
DXC Technology	DXC	23.35	5316	-17%	5.8	4.1	0.8	0.9	18.6	0.8	/Int Cov/Net debt/
NRG Energy	NRG	34.07	7828	1%	6.2	5.5	1.9	4.5	23.9	1.6	/Int Cov/Net debt/Piotroski/
WestRock	WRK	29.35	7474	-23%	9.9	5.8	0.6	3.9	15.1	1.4	/Int Cov/Net debt/
Diamondback Energy	FANG	138.06	25346	-9%	6.7	4.7	1.4	3.4	11.8	2.7	/Net debt/
Mosaic	MOS	42.08	14159	-15%	7.0	5.1	1.1	2.2	12.7	3.2	/Net debt/
Marathon Oil	MRO	23.48	14784	-17%	7.2	4.5	1.2	1.8	16.4	2.7	/Net debt/Piotroski/
Verizon Communications	VZ	38.79	162913	-5%	8.3	7.1	1.6	6.8	10.7	1.2	/Net debt/Piotroski/
Marathon Petroleum	MPC	121.43	54103	-9%	6.5	5.5	1.8	2.6	17.6	3.9	/Net debt/
CVS Health	CVS	73.06	93817	-17%	8.2	7.5	1.3	3.2	13.4	2.2	/Net debt/
Walgreens Boots Alliance	WBA	35.10	30284	-6%	7.5	11.7	1.1	5.7	10.1	2.4	/Int Cov/Net debt/
APA Corporation	APA	35.66	11089	-22%	5.8	3.3	5.4	2.9	14.0	2.0	/Net debt/
PulteGroup	PHM	66.27	14793	26%	7.2	5.8	1.4	1.0	19.8	4.7	/
Delta Air Lines	DAL	33.33	21422	-14%	5.6	5.0	1.5	0.5	11.5	0.8	/Int Cov/Net debt/
Fidelity National Info Services	FIS	56.31	33332	-25%	9.2	8.4	1.2	3.8	10.1	0.5	/Net debt/Piotroski/
Coterra Energy	CTRA	25.16	19329	-1%	10.0	5.1	1.4	4.0	8.4	3.3	/FCF yield/
General Motors	GM	32.72	45485	-14%	5.1	8.8	0.6	1.6	12.1	1.2	/Piotroski/
EQT	EQT	33.54	12086	2%	10.8	4.7	0.8	1.8	9.7	2.3	/Net debt/
Newell Brands	NWL	11.88	4914	-25%	10.4	9.5	1.4	7.8	12.3	1.0	/Int Cov/Net debt/Piotroski/
Mohawk Industries	MHK	98.78	6277	-16%	10.3	6.2	0.7	0.0	12.2	2.7	/Net debt/Piotroski/
Alaska Air Group	ALK	42.97	5480	-16%	6.7	4.2	1.0	0.3	6.3	1.3	/FCF yield/Int Cov/Net debt/
EOG Resources	EOG	115.84	68082	-14%	9.5	5.1	2.3	5.8	7.8	5.1	/FCF yield/Piotroski/
CF Industries Holdings	CF	70.11	13725	-16%	7.8	5.6	2.1	2.3	17.3	4.3	/
LyondellBasell Industries	LYB	91.32	29770	-4%	9.5	7.3	2.0	5.3	9.4	3.1	/Net debt/
Ford Motor Company	F	11.61	45457	-13%	7.1	10.0	1.0	4.7	5.5	1.1	/FCF yield/Int Cov/Piotroski/
Fox Corporation Class B	FOX	30.15	16922	-5%	9.3	7.2	1.3	1.8	10.6	2.4	/Int Cov/Net debt/Piotroski/
Bunge	BG	92.69	13897	-5%	7.9	6.5	1.3	2.9	4.6	4.6	/FCF yield/Net debt/Piotroski/
Celanese	CE	103.41	11217	-14%	8.1	8.8	1.8	2.8	12.4	1.6	/Int Cov/Net debt/Piotroski/
Eastman Chemical Company	EMN	80.56	9570	-7%	10.0	8.1	1.4	4.0	7.5	2.5	/FCF yield/Int Cov/Net debt/Piotroski/
Whirlpool	WHR	135.39	7414	-12%	8.2	7.9	2.8	5.2	8.2	2.4	/FCF yield/Int Cov/Net debt/Piotroski/
Devon Energy	DVN	52.25	34172	-20%	8.0	4.7	2.6	1.6	10.7	4.0	/Net debt/
Lennar	LEN	111.70	31809	11%	10.8	7.9	1.2	1.4	11.6	4.3	/Piotroski/
Albemarle	ALB	186.00	21799	-34%	7.2	5.7	1.8	2.2	2.3	3.5	/FCF yield/Piotroski/
International Paper	IP	33.01	11556	-13%	12.9	7.1	1.4	5.6	8.1	2.2	/FCF yield/Int Cov/Net debt/
Comcast	CMCSA	40.27	169400	2%	10.6	7.2	1.9	2.9	7.8	1.6	/FCF yield/Int Cov/Net debt/Piotroski/
Fox Corporation Class A	FOXA	32.86	16922	-3%	10.2	7.8	1.5	1.6	10.6	2.4	/Int Cov/Net debt/Piotroski/
ConocoPhillips	COP	101.23	123377	-18%	10.2	5.0	2.4	3.2	9.7	4.2	/
BorgWarner	BWA	47.64	11154	4%	9.2	5.7	1.3	1.4	5.9	2.7	/FCF yield/Net debt/
Chevron	CVX	166.95	318319	-7%	11.6	6.0	1.9	3.7	9.0	4.5	/
Best Buy Co.	BBY	73.53	16033	-14%	11.5	6.6	6.0	5.1	9.5	4.3	/Piotroski/
Cigna Group	CI	250.33	74363	-19%	9.7	8.7	1.5	2.1	12.3	2.0	/Net debt/
Kinder Morgan Class P	KMI	17.32	38818	-7%	15.3	9.2	1.3	6.6	7.4	0.8	/FCF yield/Int Cov/Net debt/
Steel Dynamics	STLD	104.37	17908	-12%	7.8	5.5	1.7	1.6	6.1	6.1	/FCF yield/Piotroski/
Southwest Airlines	LUV	29.88	17757	-18%	9.8	4.1	1.5	2.4	2.2	1.8	/FCF yield/Int Cov/
Bristol-Myers Squibb	BMY	67.61	141898	-7%	8.4	8.5	3.5	3.4	11.9	2.5	/Net debt/Piotroski/
Dow	DOW	53.50	37841	-9%	14.3	7.5	1.9	5.3	7.2	2.5	/FCF yield/Net debt/Piotroski/
Global Payments	GPN	109.65	28855	-3%	10.2	9.8	1.2	1.0	9.5	1.2	/Int Cov/Net debt/Piotroski/
V.F. Corp	VFC	23.14	8994	-24%	10.4	10.8	2.5	5.3	8.8	2.0	/FCF yield/Net debt/
Skyworks Solutions	SWKS	103.91	16519	-7%	10.3	7.9	2.6	2.3	12.2	5.2	/Piotroski/
Tyson Foods Class A	TSN	61.28	17503	-7%	12.1	7.5	1.0	3.2	2.8	3.3	/FCF yield/Net debt/
Molson Coors Beverage Class B	TAP	59.09	11978	15%	14.2	9.2	1.0	2.8	8.5	1.4	/FCF yield/Int Cov/Net debt/Piotroski/
D.R. Horton	DHI	108.34	36952	12%	9.7	8.2	1.6	0.9	8.5	5.7	/FCF yield/
Kraft Heinz	KHC	39.68	48608	0%	14.3	11.1	1.0	4.1	6.6	1.2	/FCF yield/Int Cov/Net debt/
Exxon Mobil	XOM	116.83	475613	1%	11.7	6.4	2.3	3.2	7.9	5.1	/FCF yield/
Kroger	KR	48.34	34682	7%	10.7	6.8	2.6	2.1	10.0	4.2	/Net debt/
3M	MMM	105.33	58108	-9%	11.8	8.9	3.5	5.9	7.9	3.7	/FCF yield/Net debt/Piotroski/
Tapestry	TPR	40.85	9644	-7%	9.9	8.9	3.3	3.1	9.6	2.6	/Net debt/Piotroski/
Pioneer Natural Resources	PXD	212.81	50011	-9%	9.6	5.8	2.0	2.2	7.9	4.0	/FCF yield/
Hasbro	HAS	58.93	8145	1%	13.0	9.9	3.0	4.8	5.7	2.3	/FCF yield/Int Cov/Net debt/Piotroski/

Continued...

US S&P 500 filtered value ex financials

Name	Ticker	Share Price $ (last close)	Mkt cap ($mn)	3-mth share price mom	Fwd 12-mth PE	Fwd 12-mth EV/Ebitda	Fwd 12-mth P/B	Fwd 12-mth DY	Fc Free cash flow yield	Altman Z	Tests failed
Pfizer	PFE	38.74	217683	-12%	11.1	9.5	2.2	4.3	8.3	3.4	/FCF yield/
Advance Auto Parts	AAP	124.90	7403	-15%	11.4	9.2	2.3	4.9	7.4	2.2	/FCF yield/Net debt/Piotroski/
VICI Properties	VICI	33.29	33412	-2%	13.5	15.0	1.4	4.9	4.1	1.5	/FCF yield/Int Cov/Net debt/Piotroski/
ONEOK	OKE	65.30	29204	-4%	12.6	9.7	4.1	5.9	8.2	2.3	/FCF yield/Int Cov/Net debt/
Nucor Corporation	NUE	148.29	37359	-11%	10.3	6.4	1.6	1.4	4.7	5.5	/FCF yield/Piotroski/
Cisco Systems	CSCO	46.56	190702	-4%	11.8	8.6	3.8	3.4	8.9	3.3	/
Williams Companies	WMB	29.81	36325	-5%	16.8	9.4	3.1	6.1	6.8	0.6	/FCF yield/Int Cov/Net debt/
Halliburton Company	HAL	32.00	28870	-21%	9.8	6.8	2.7	2.0	6.8	3.4	/FCF yield/Int Cov/Net debt/
Archer-Daniels-Midland	ADM	78.01	42487	-7%	11.4	9.2	1.7	2.3	5.1	3.4	/FCF yield/
Ralph Lauren Class A	RL	114.74	4716	-7%	12.3	8.5	2.9	2.8	8.0	3.2	/FCF yield/
Conagra Brands	CAG	37.90	18075	4%	13.3	11.2	1.9	3.5	8.0	1.9	/FCF yield/Int Cov/Net debt/Piotroski/
Juniper Networks	JNPR	29.58	9583	-8%	12.2	8.6	2.0	2.9	8.2	1.8	/FCF yield/
Newmont Corp	NEM	48.27	38316	-9%	20.2	7.8	1.9	3.2	3.9	1.8	/FCF yield/Piotroski/
Duke Energy Corp	DUK	99.47	76600	-2%	17.3	11.8	1.5	4.2	0.6	0.6	/FCF yield/Int Cov/Net debt/Piotroski/
PPL Corp	PPL	28.77	21194	-3%	17.7	10.6	1.5	3.4	0.2	0.9	/FCF yield/Int Cov/Net debt/Piotroski/
Corning	GLW	32.75	27725	-11%	15.4	8.4	2.2	3.1	4.7	2.5	/FCF yield/Int Cov/Net debt/Piotroski/
FedEx Corp	FDX	225.94	56790	19%	12.6	8.7	1.9	2.1	4.7	2.5	/FCF yield/Net debt/Piotroski/

Sources: FactSet, Investors' Chronicle

S&P 500 value financials

Name	Ticker	Share price $ (last close)	Mkt cap ($mn)	3-mth share price mom.	Fwd 12-mth PE	Fwd 12-mth P/B	Fwd 12-mth DY	ROE	Cost of equity	ROE/ COE
Citizens Financial	CFG	30	14567	-30%	6.7	0.6	5.8	8.8	24.7	0.4
Zions Bancorp	ZION	27	3951	-50%	5.1	0.7	6.4	14.6	24.9	0.6
Truist Financial Corp	TFC	31	41677	-36%	7.0	0.7	7.1	9.6	23.1	0.4
Comerica	CMA	41	5429	-43%	5.1	0.8	7.1	17.5	25.3	0.7
KeyCorp	KEY	11	10203	-42%	6.5	0.8	7.8	12.4	24.8	0.5
U.S. Bancorp	USB	33	49869	-33%	7.1	1.0	6.0	11.0	20.4	0.5
Huntington Bancshares	HBAN	11	16090	-26%	7.7	0.9	5.8	12.1	23.1	0.5

Sources: FactSet, Investors' Chronicle

US financials

As we can see from the tables above the cost of equity implied by US bank shares has blown out significantly in the aftermath of the SVB debacle and now concerns about First Republic. This would imply that bank shares are incredibly cheap versus the value of their assets if we calculate a cost of equity in our tables which is based on the beta (volatility relative to the market) of the shares and premiums over government bond yields.

Investors may prefer to use a more normalised cost of equity estimation for US banks. For example, Professor Aswath Damodaran of New York Stern University estimated a figure in the 10-11 per cent range at the turn of the year. Undoubtedly, the risk premiums have gone haywire in the last six weeks but even using this more sober estimate for COE, the US banks look cheap. However, investors may be well advised not to rush in, banks other than First Republic have been accessing some of the Fed's liquidity facilities, so there could be more nasty surprises for America's banking sector even if the risk of systemic failure looks (so far) to be well contained.

Appendix:

Piotroski scoring

Profitability measures:

- Positive return on assets
- Positive cash flow from operations
- YoY change on ROA is positive
- CFO is greater than ROA

Leverage and liquidity

- YoY reduction in ratio of long-term debt to total assets
- Positive YoY change in current assets ratio (current assets to current liabilities)
- You reduction in borrowing

Operating efficiency

- Positive YoY change in Ebit margin
- Positive YoY change in Sales

Altman Z-score

Thee sum of:

- 1.2 x working capital divided by total assets
- 1.4 x retained earnings divided by total assets
- 3.3 x Ebit divided by total assets
- 0.6 x market cap divided by total liabilities
- 1.0 x sales divided by total assets

Investors' Chronicle | Alpha

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ISSN 0261-3115.