

Investment Opportunities and Strategy in an Era of Coronavirus Pandemic



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Agenda



Introduction



Strategy



Sectors



Online Entertainment

Online Education

Healthcare

Food



Result



Conclusion

Market



March 12, 2020

The largest **decline** since Black Monday, entered bear market

A market crash is scary, but we should not get panic and should invest wisely because the market will recover after the downturn.

“This Is Your Brain on a Crashing Stock Market” (Zweig, 2020)



- March 12, 2020, the S & P 500 Index fell by more than 7%
- On March 16, 2020, the S & P 500 Index opened down 220.60 points, a drop of 8.14
- On March 18, 2020, the S & P 500 index fell 177.29 points intraday, a drop of 7.01%

Introduction



*“Warren Buffett calls coronavirus outbreak ‘scary stuff,’
but says he won’t be selling stocks”
(Stempel, 2020)*

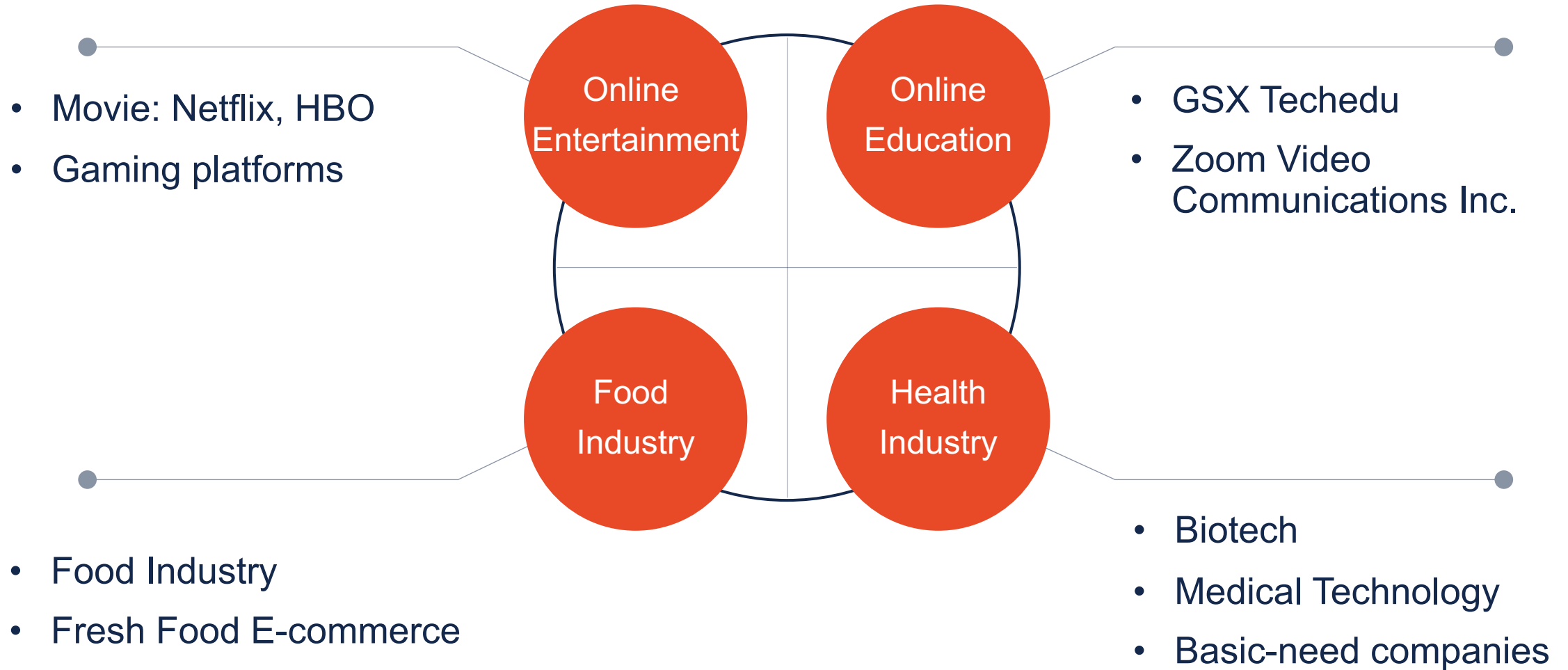
Short-term

1. Online Entertainment
2. Online Education
3. Healthcare
4. Food

Long-term

1. Blue Chip Companies
2. Revolutionary companies
3. Strong Financial Ratio
4. Sectors supported by government





7-Step Investment Strategy



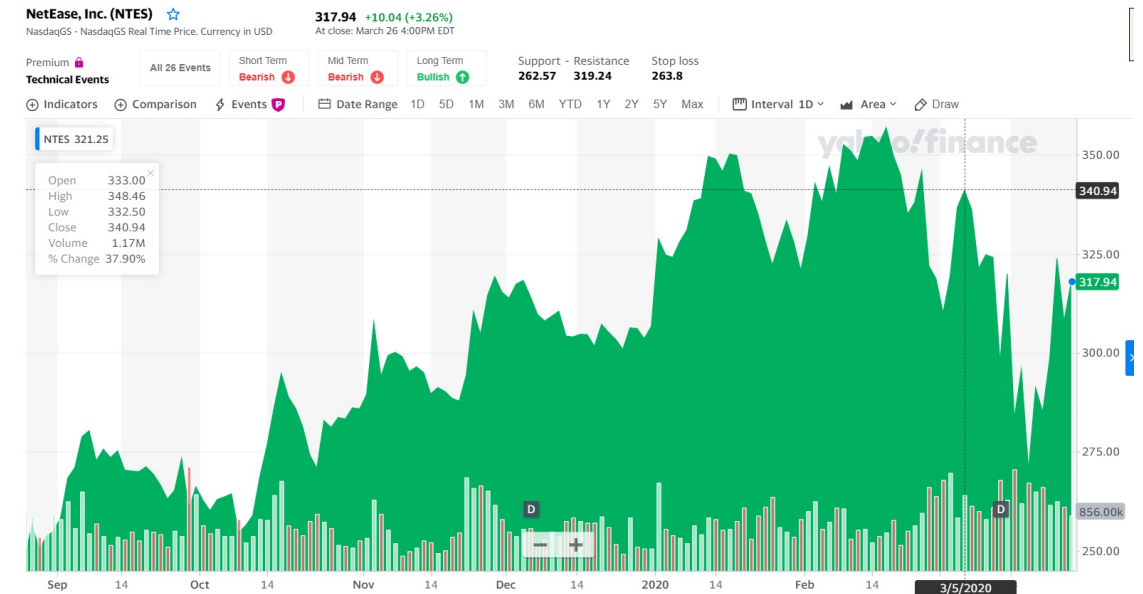
- 1. **Identify the market:** whether it helps to **solve problems and support clients** ;
- 2. **Identify the business:** whether it has **evolutionary or revolutionary** product;
- 3. **Identify the horizon:** whether it is a short-run or long-run investment opportunity;
- 4. **Identify cost structure:** Financial Statements=>Income Statement=> Sales/**COGS**/Net Income;
- 5. **Stock Price Movement Analysis:** compare stock price with previous months;
- 6. **Financial Ratio Analysis:** Checking P/E ratio, EV/EBITDA, EV/Sales;
- 7. **Analyze Using Alternative Data:** Google Analytics, Satellite Data, Google Trends...



Online Entertainment — Video Gaming



- According to the recent Barrons' statistics the number of users of the game named "Honors of King" surpassed 100 million people at the Lunar New Year in China. This is in comparison to the average 60 million users per day.
- The trend is more likely to continue since coronavirus prisoned millions of people at home, especially college and university students - the target audience of video game industry.
- Tencent Holdings and NetEase - companies that are in video game business showed the highest positive fluctuations during the last period among Chinese stocks.
- The video games is basically a software which is not requires high inventory and COGS part of the business model structure it is a good sign to invest in the short-term, as well as in the long-term perspective.



Online Entertainment — Netflix



Recent global coronavirus outbreak made millions of people prison in their houses. This resulted in the popularization of in-home entertainment services. Companies such as Netflix, HBO, Amazon Prime Video and Youtube broadcasting channels are beneficial.

- Netflix has really benefited from the pandemic outbreak since it is the easiest way to entertain home-stay people.
- We analyzed the historical prices for NFLX for the last two months. If we look at the prices, we could see a general upward trend starting from January, 10, 2020 that is a demonstration support showing the correct flow of logic that home-stay entertainment is doing well in global crisis times.
- If coronavirus continues to spread among the population of other big countries, people will be on quarantine at their homes. Netflix and other representatives of online entertainment industries will be in benefits even more.



Online Education

There might be a revolution! **I**

Trends in education industries:

➤ **Some are using third-party platforms** (e.g. Zoom, Skype, RTX Meeting(Tencent), Blackboard Collaborate)...

Market Summary > Zoom Video Communications Inc
NASDAQ: ZM

+ Follow

121.93 USD -15.07 (11.00%) ↓

Closed: Apr 2, 7:59 PM EDT · Disclaimer
After hours 123.50 +1.57 (1.29%)

1 day 5 days 1 month 6 months YTD **1 year** 5 years Max



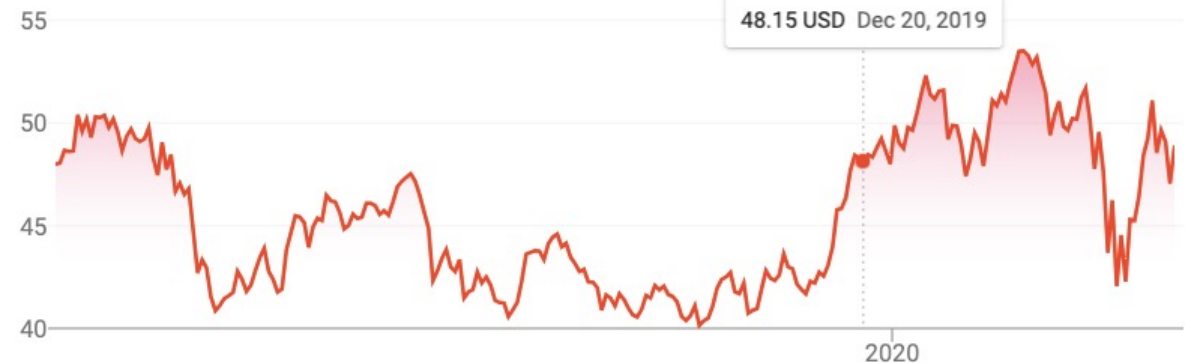
Market Summary > TENCENT HOLDING/ADR
OTCMKTS: TCEHY

+ Follow

48.82 USD +1.76 (3.74%) ↑

Closed: Apr 2, 4:36 PM EDT · Disclaimer
After hours 48.82 0.00 (0.00%)

1 day 5 days 1 month 6 months YTD **1 year** 5 years Max



➤ **Some universities are trying to launch their own online education system:**
Xi'an Jiaotong-Liverpool University “Not alternative solution, but upgrade of education system.”

Online Education – Target 1: GSX Techedu



- a technology-driven education company with a focus on online K-12 courses
- went public in June 2019

Market Summary > GSX Techedu Inc
NYSE: GSX

+ Follow

38.98 USD **-2.27 (5.50%)** ↓

Closed: Apr 2, 7:12 PM EDT · Disclaimer
After hours 38.85 **-0.13 (0.33%)**

1 day 5 days 1 month 6 months YTD **1 year** 5 years Max



■ Q4 2019 Financial Report:

- Revenue: increased by 413%
- 1.12 million applicants (increased by 290%)
- Non-GAAP gross profit margin: 68.3 % to 79.7%

■ Potential Growth:

- Current PE ratio: 8x
- **Might be still undervalued...**

Online Education – Target 2: Zoom



Market Summary > Zoom Video Communications Inc
NASDAQ: ZM

+ Follow

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“It is too early to predict Zoom Inc.’s success, because most of the companies connecting through a free app, and it is unclear whether they can be switch paying ones.”

-----JP Morgan

**Before Outbreak of
Coronavirus**

**After Outbreak of
Coronavirus**

Poorly Performing

Biggest Increase

Quarterly net income
of \$1.2M

Quarterly net income
of \$15.3M

Per-share earnings 1
cent

Adjusted per-share
earnings 15 cents

Quarterly Revenue
\$105.8M

Quarterly Revenue
\$188.3M (by 78%)

2020 Financial Report: COGS/Revenue = 0.173 !

- **Short-term investment opportunities ☺**
- **Long-term? Probably ☺ as well.**
 - ❑ Change of organizational structure of universities
 - ❑ Low expense & high efficiencies
 - ❑ increasing user stickiness after the coronavirus period

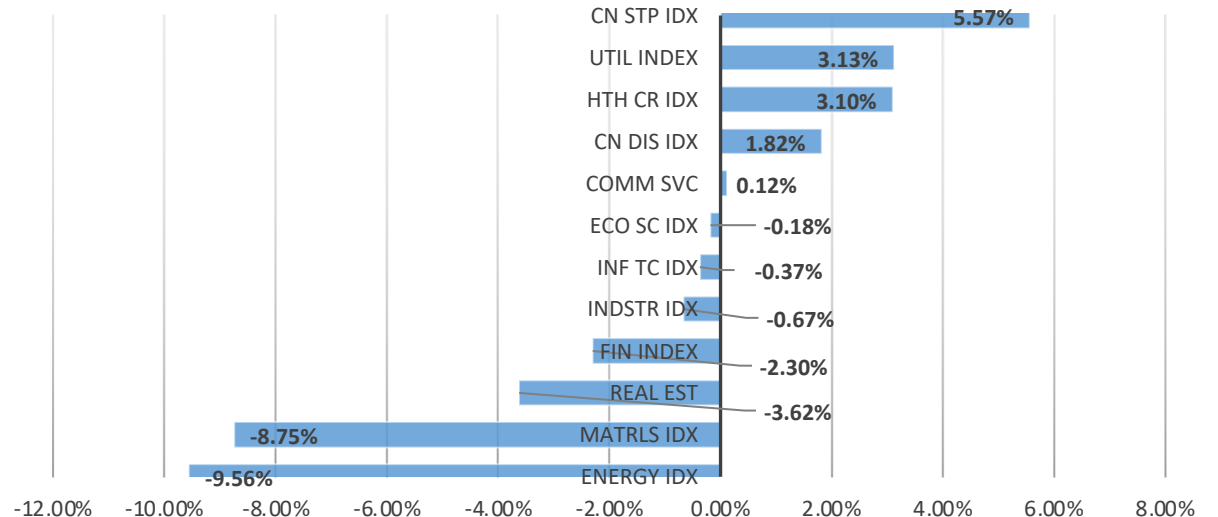
Defensive Business (Businesses do well at all time)



- With the coronavirus outbreak spreading rapidly in countries beyond China, the impacts on economics were felt outside of China as well.
- Given the consistent demand for their products, defensive business have solid pricing power in any economic environment, and their cash flows are usually highly predictable,.
- Compared 11 different industries' performance in the reflationary, inflationary, stagflationary and deflationary stages, we picked healthcare industry and consumer staples industry (focus on food)

Geomean	reflationary	inflationary	stagflationary	deflationary
S&P SPCM 1500 ECO SC IDX	9.46%	19.87%	14.57%	-0.18%
S&P SPCM 1500 UTIL INDEX	4.54%	15.35%	11.48%	3.13%
S&P SPCM 1500 Real Est	7.09%	11.33%	-2.04%	-3.62%
S&P SPCM 1500 MATRLS IDX	10.65%	17.62%	13.68%	-8.75%
S&P SPCM 1500 INF TC IDX	12.76%	35.08%	25.49%	-0.37%
S&P SPCM 1500 INDSTR IDX	10.24%	22.58%	14.60%	-0.67%
S&P SPCM 1500 HTH CR IDX	11.01%	10.13%	19.86%	3.10%
S&P SPCM 1500 FIN INDEX	11.05%	22.65%	-0.65%	-2.30%
S&P SPCM 1500 ENERGY IDX	7.32%	19.26%	43.68%	-9.56%
S&P SPCM 1500 COMM SVC	-5.73%	17.77%	15.26%	0.12%
S&P SPCM 1500 CN STP IDX	10.20%	6.04%	7.51%	5.57%
S&P SPCM 1500 CN DIS IDX	12.50%	18.12%	1.27%	1.82%

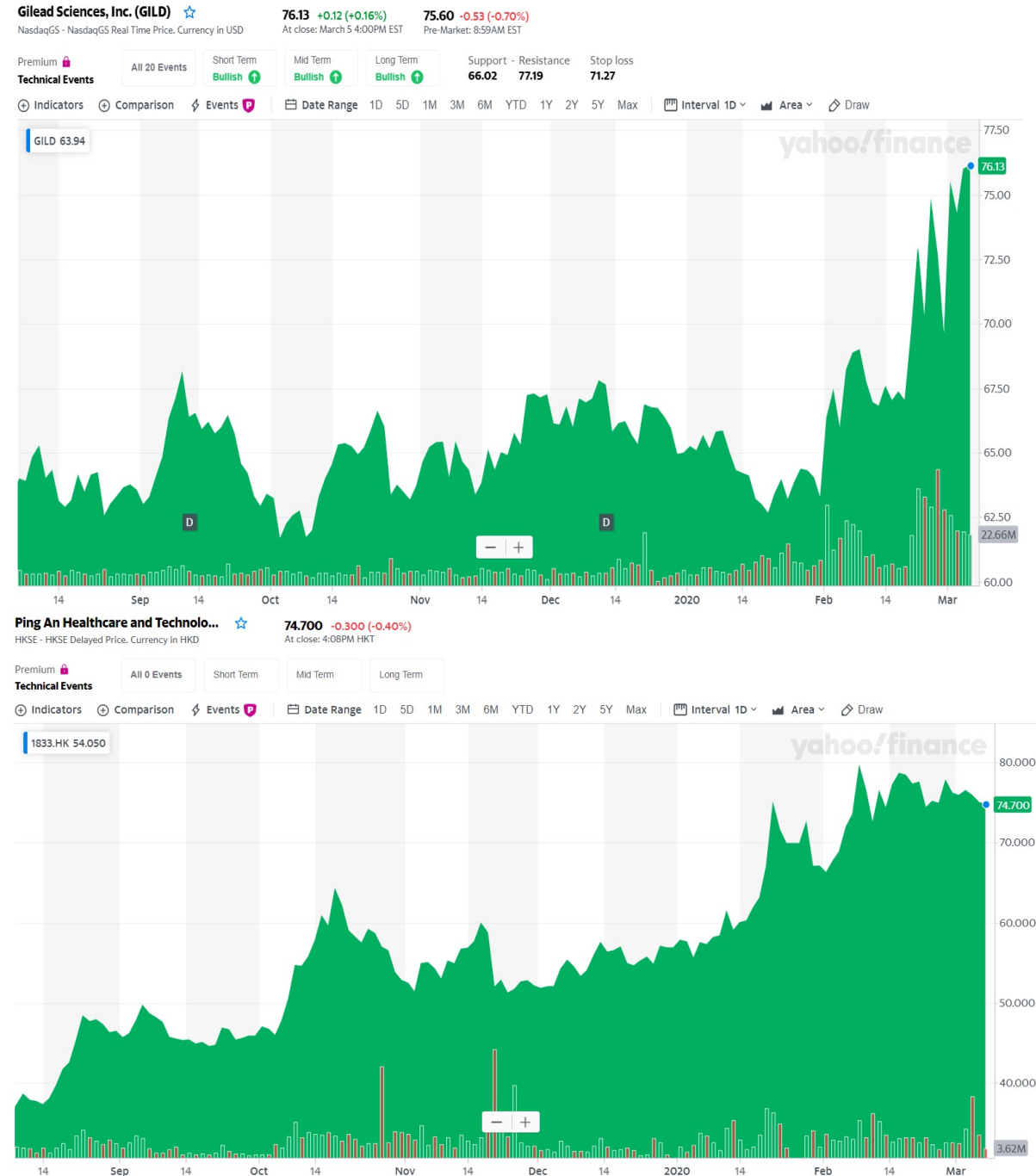
deflationary



Healthcare Industry

As the patchwork of epidemics is coalescing into a pandemic, health-care companies will be on the front line: treating the ill, paying for care, and seeking cures.

- Basic-need companies
E.g. Johnson & Johnson
- Biotech
E.g. Gilead Sciences (GILD)
Moderna (MRNA)
- Medical Technology
E.g. Ping An Good Doctor



Food E-commerce Industry

Short-term investment

Client
Logo



- Analysis of the Chinese food e-commerce companies.
- Forecast of the the Us food e-commerce companies.
- Short-term Investment – Timing is important

Chinese Market

1. Yonghui Superstores Co., Ltd. (601933.SS),
2. JD.com, Inc. (JD),
3. Meituan Dianping (3690.HK).

US Market

1. Walmart Inc. (WMT)
2. Costco Wholesale Corporation (COST)
3. Amazon Corporation plc (AMRN)



Result: Investment Targets



Company	Industry	Current Stock Price	Stock Price 3 Months Ago	Price Change In Last 3 Months	COGS/Revenue	Long/ Short-term
GSX Techedu Inc.	Online education	41.38	19.63	110.80%	25.34	Short/Long-term
Tencent	Online education /entertainment	51.23	42.74	19.86%	55.98	Short/Long-term
Zoom	Online education	122.79	67.28	82.51%	0.173	Short/Long-term
NetEase, Inc.	Online education /entertainment	336.70	309.67	8.73%	46.73	Short/Long-term
Yonghui Super-stores Co., Ltd.	Food	9.89	7.78	21.33%	49.85	Long-term
JD.com, Inc.	Food	41.63	37.99	9.58%	47.43	Short-term
Johnson and Johnson	Healthcare	141.36	139.46	1.36%	41.95	Long-term
Gilead Science	Healthcare	77.93	66.43	17.31%	60.1	Long-term
Moderna. Inc	Healthcare	28.65	21	36.43%	798	Long-term
Ping An Healthcare and Technology Limited	Healthcare	74.7	54.7	36.56%	44.24	Long-term

Conclusion



- Developed a seven-step investment strategy to source good deals to invest in:
 - *Potential Growth market;*
 - *Underperform and Overperform;*
 - *Short and Long-term Investment;*
 - *Analyzing Financial Statements;*
 - *Evolutionary or revolutionary*
 - *Alternative data sets*
- Suggested that there are good investment opportunities in some industries such as online education, online entertainment, and healthcare, food (February)
- If the growth in some industries begins partially due to the specific pandemic situation, there might be consistent growth in the future considering the revolution that some companies generated under such a difficult time
- Suggesting to invest in stocks that got cheaper from the market crash and had a good growth rate before the pandemic



Thank you for your attention!

Q&A



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