IDENTIFYING UNDERVALUED COMPANIES ACROSS SECTORS USING FINANCIAL METRICS: A COMPREHENSIVE ANALYSIS BY AKINBOWALE MICHEAL

EXECUTIVE SUMMARY

Objective: The objective of this project is to identify undervalued companies within four different sectors - Industrial, Consumer Cyclical, Technology, and Healthcare - by analyzing key financial metrics such as Market Cap, P/E Ratio, Gross Profit (GP), and Gross Profit Growth (GPG) over the past four years.

Approach: This analysis leverages data sourced from Finviz and MarketWatch. Using a comparative analysis approach, I identify companies with potential undervaluation. A Discounted Cash Flow (DCF) model is then applied to project future values.

Findings: Delta Airlines (Industrial), Toyota Motor Corporation ADR (Consumer Cyclical), Jabil Inc (Technology), and CVS Health Corporation (Healthcare) emerged as undervalued companies based on their financial metrics.

Introduction

In the ever-competitive financial markets, identifying undervalued companies can offer significant investment opportunities. This report presents an in-depth analysis of selected companies across four sectors to determine their relative value compared to sector peers. The sectors and companies analyzed are:

- **Industrial**: Delta Airlines, Southwest Airlines Co., Alaska Air Group Inc, Skywest Inc.
- **Consumer Cyclical**: Toyota Motor Corporation ADR, Ford Motor Co, Tesla Inc, Ferrari N.V.
- **Technology**: Jabil Inc, Corning Inc, Littelfuse Inc, Amphenol Group
- **Healthcare**: CVS Health Corporation, UnitedHealth Group Inc, Pfizer Inc, Johnson & Johnson

Data Collection and Preparation

Data Sources:

- **Financial Data**: Finviz
- **Gross Profit Data**: MarketWatch

Metrics Collected:

- Market Cap
- P/E Ratio
- Gross Profit (GP) from 2020 to 2023
- Gross Profit Growth (GPG) from 2020 to 2023

Sector Peers and Averages:

- Industrial Sector: P/E Ratio - 31.95, Avg GP - $6.3B, Avg GPG - 176.84%
- Consumer Cyclical Sector: P/E Ratio - 43.25, Avg GP - $34.57B, Avg GPG - 25.83%
- Technology Sector: P/E Ratio - 43.72, Avg GP - $3.63B, Avg GPG - 10.89%
- Healthcare Sector: P/E Ratio - 20.42, Avg GP - $47.15B, Avg GPG - 10.26%

Sector Analysis

1. Industrial Sector Analysis

Comparative Analysis

The comparative analysis involves evaluating Delta Airlines against its sector peers: Southwest Airlines Co., Alaska Air Group Inc., and Skywest Inc. The metrics analyzed include Market Cap, P/E Ratio, Gross Profit, and Gross Profit Growth over the past four years.

Company	Sector	Market Cap	P/E Ratio	GP 2020	GP 2021	GP 2022	GP 2023	Avg GP/GPG
Delta Airline	Industrial	$28.82B	6.42	(6.54B)	(287M)	7.25B	10.83B	$2.31B
GPG				-162.71%	95.61%	2626.83%	49.32%	652.26%
Southwest Airline Co.	Industrial	$16.27B	44.12	(2.79B)	1.16B	3.92B	4.1B	$1.60B
GPG				-146.21%	141.59%	238.22%	4.46%	59.52%
Alaska Air Group Inc.	Industrial	$4.81B	22.02	(1.18B)	336M	1.57B	1.93B	$670M
GPG				-159.39%	128.40%	366.96%	23.07%	89.26%
Skywest Inc.	Industrial	$3.32B	29.71	(13.89M)	193.72M	499.31M	372.19M	$260M
GPG				-101.79%	1494.49%	157.74%	-25.46%	381.71%

Findings:

- **P/E Ratio**: Delta Airlines has the lowest P/E ratio (6.42) compared to the sector average of 31.95.
- **Gross Profit**: Delta Airline has the highest average gross profit ($2.31B) compared to the sector average of $0.71B.
- **Gross Profit Growth**: Delta Airline's average gross profit growth (652.26%) is significantly higher than the sector average of 176.84%.

The comparative analysis indicates that Delta Airlines is undervalued relative to its peers, given its significantly lower P/E ratio and higher gross profit and gross profit growth.

Current Valuation

Methodology: The current valuation involves comparing the market cap and P/E ratio of Delta Airlines with its sector peers.

- **Delta Airline**: Market Cap - $28.82B, P/E Ratio - 6.42
- **Sector Peers Average**: Market Cap - $8.13B, P/E Ratio - 31.95

Findings:

- Delta Airline's market cap is higher than the sector average, indicating a strong market position.
- The P/E ratio of Delta Airlines is significantly lower than the sector average, suggesting it may be undervalued.

Valuation Model

Model Development: The Discounted Cash Flow (DCF) model is used to project Delta Airlines' future value over the next five years.

Assumptions:

- Industry Growth Rate: 295.68% (calculated as the average growth rate of the sector peers)
- Discount Rate: Assumed based on industry standards (e.g., WACC for the industrial sector)

Projections:

- **2024**: 10.83B×(1+2.96)=42.85B10.83B \times (1 + 2.96) = 42.85B10.83B×(1+2.96)=42.85B
- **2025**: 42.85B×(1+2.96)=169.69B42.85B \times (1 + 2.96) = 169.69B42.85B×(1+2.96)=169.69B
- **2026**: 169.69B×(1+2.96)=671.97B169.69B \times (1 + 2.96) = 671.97B169.69B×(1+2.96)=671.97B
- **2027**: 671.97B×(1+2.96)=2.661T671.97B \times (1 + 2.96) = 2.661T671.97B×(1+2.96)=2.661T
- **2028**: 2.661T×(1+2.96)=10.54T2.661T \times (1 + 2.96) = 10.54T2.661T×(1+2.96)=10.54T

DCF Calculation:

- Discount factor for each year (assuming a discount rate of 10%):
  - **2024**: 1(1+0.10)1=0.909\frac{1}{(1 + 0.10)^1} = 0.909(1+0.10)11=0.909
  - **2025**: 1(1+0.10)2=0.826\frac{1}{(1 + 0.10)^2} = 0.826(1+0.10)21=0.826
  - **2026**: 1(1+0.10)3=0.751\frac{1}{(1 + 0.10)^3} = 0.751(1+0.10)31=0.751
  - **2027**: 1(1+0.10)4=0.683\frac{1}{(1 + 0.10)^4} = 0.683(1+0.10)41=0.683
  - **2028**: 1(1+0.10)5=0.621\frac{1}{(1 + 0.10)^5} = 0.621(1+0.10)51=0.621
- **DCF Values**:
  - **2024**: 42.85B×0.909=38.96B42.85B \times 0.909 = 38.96B42.85B×0.909=38.96B
  - **2025**: 169.69B×0.826=140.19B169.69B \times 0.826 = 140.19B169.69B×0.826=140.19B
  - **2026**: 671.97B×0.751=504.14B671.97B \times 0.751 = 504.14B671.97B×0.751=504.14B
  - **2027**: 2.661T×0.683=1.82T2.661T \times 0.683 = 1.82T2.661T×0.683=1.82T
  - **2028**: 10.54T×0.621=6.55T10.54T \times 0.621 = 6.55T10.54T×0.621=6.55T
- **Total DCF**: 38.96B+140.19B+504.14B+1.82T+6.55T=9.06T38.96B + 140.19B + 504.14B + 1.82T + 6.55T = 9.06T38.96B+140.19B+504.14B+1.82T+6.55T=9.06T

Conclusion: The DCF analysis indicates a total projected value of $9.06T for Delta Airlines over the next five years, supporting the conclusion that Delta Airlines is currently undervalued.

Conclusion

Summary of Findings:

- Delta Airlines is undervalued based on its low P/E ratio and strong gross profit compared to sector peers.
- The valuation model projects a significant increase in value over the next five years, further supporting Delta Airlines as a valuable investment.
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- **Investment Recommendation**: Based on the comparative analysis and valuation model, we recommend considering Delta Airlines as a potential investment due to its strong financial position and growth potential.

2. Consumer Cyclical Sector Analysis

Comparative Analysis

The comparative analysis involves evaluating Toyota Motor Corporation against its sector peers: Ford Motor Co, Tesla Inc, and Ferrari N.V. The metrics analyzed include Market Cap, P/E Ratio, Gross Profit, and Gross Profit Growth over the past four years.

Company	Section	Market Cap	P/E Ratio	GP 2020	GP 2021	GP 2022	GP 2023	Avg GP/GPG
Toyota Motor Corporation ADR	Consumer Cyclical	$268.94B	7.87	5.38T	4.83T	5.97T	6.31T	¥5.62T
GPG				-0.83%	-10.20%	23.58%	5.72%	4.57%
Ford Motor Co.	Consumer Cyclical	$58.09B	15.00	12.72B	24.55B	25.1B	24.31B	$21.67B
GPG				-33.46%	93.05%	2.24%	-3.14%	14.67%
Tesla Inc.	Consumer Cyclical	$762.86B	61.13	6.63B	13.61B	20.85B	17.66B	$14.19B
GPG				62.94%	105.22%	53.26%	-15.31%	51.03%
Ferrari N.V	Consumer Cyclical	$75.63B	53.62	2.97B	2.45B	2.19B	1.77B	$2.34B
GPG				-7.78	27.89	0.54	24.92	11.89%

Findings:

- **P/E Ratio**: Toyota Motor Corporation has the lowest P/E ratio (7.87) compared to the sector average of 43.25.
- **Gross Profit**: Toyota Motor Corporation has a high average gross profit (¥5.62T) compared to the sector average of $34.57B.
- **Gross Profit Growth**: Toyota Motor Corporation's average gross profit growth (4.57%) is lower than the sector average of 25.83%.

The comparative analysis indicates that Toyota Motor Corporation is undervalued relative to its peers, given its significantly lower P/E ratio and substantial gross profit.

Current Valuation

Methodology: The current valuation involves comparing the market cap and P/E ratio of Toyota Motor Corporation with its sector peers.

- **Toyota Motor Corporation**: Market Cap - $268.94B, P/E Ratio - 7.87
- **Sector Peers Average**: Market Cap - $298.86B, P/E Ratio - 43.25

Findings:

- Toyota Motor Corporation's market cap is slightly below the sector average, indicating a strong market position.
- The P/E ratio of Toyota Motor Corporation is significantly lower than the sector average, suggesting it may be undervalued.

Valuation Model

Model Development: The Discounted Cash Flow (DCF) model is used to project Toyota Motor Corporation's future value over the next five years.

Assumptions:

- Industry Growth Rate: 20.54% (calculated as the average growth rate of the sector peers)
- Discount Rate: Assumed based on industry standards (e.g., WACC for the consumer cyclical sector)

Projections:

- **2024**: ¥6.31T × (1 + 0.2054) = ¥7.64T
- **2025**: ¥7.64T × (1 + 0.2054) = ¥9.24T
- **2026**: ¥9.24T × (1 + 0.2054) = ¥11.18T
- **2027**: ¥11.18T × (1 + 0.2054) = ¥13.53T
- **2028**: ¥13.53T × (1 + 0.2054) = ¥16.37T

DCF Calculation:

- Discount factor for each year (assuming a discount rate of 10%):
  - **2024**: 1(1+0.10)1=0.909\frac{1}{(1 + 0.10)^1} = 0.909(1+0.10)11=0.909
  - **2025**: 1(1+0.10)2=0.826\frac{1}{(1 + 0.10)^2} = 0.826(1+0.10)21=0.826
  - **2026**: 1(1+0.10)3=0.751\frac{1}{(1 + 0.10)^3} = 0.751(1+0.10)31=0.751
  - **2027**: 1(1+0.10)4=0.683\frac{1}{(1 + 0.10)^4} = 0.683(1+0.10)41=0.683
  - **2028**: 1(1+0.10)5=0.621\frac{1}{(1 + 0.10)^5} = 0.621(1+0.10)51=0.621
- **DCF Values**:
  - **2024**: ¥7.64T × 0.909 = ¥6.95T
  - **2025**: ¥9.24T × 0.826 = ¥7.64T
  - **2026**: ¥11.18T × 0.751 = ¥8.40T
  - **2027**: ¥13.53T × 0.683 = ¥9.24T
  - **2028**: ¥16.37T × 0.621 = ¥10.16T

- **Total DCF**: ¥6.95T + ¥7.64T + ¥8.40T + ¥9.24T + ¥10.16T = ¥42.39T

Conclusion: The DCF analysis indicates a total projected value of ¥42.39T for Toyota Motor Corporation over the next five years, supporting the conclusion that Toyota Motor Corporation is currently undervalued.

Conclusion

Summary of Findings:

- Toyota Motor Corporation is undervalued based on its low P/E ratio and substantial gross profit compared to sector peers.
- The valuation model projects a significant increase in value over the next five years, further supporting Toyota Motor Corporation as a valuable investment.

Investment Recommendation: Based on the comparative analysis and valuation model, we recommend considering Toyota Motor Corporation as a potential investment due to its strong financial position and growth potential.

3. Technology Sector Analysis

Comparative Analysis

The comparative analysis evaluates Jabil Inc. against its sector peers: Corning Inc., Littelfuse Inc., and Amphenol Group. The metrics analyzed include Market Cap, P/E Ratio, Gross Profit, and Gross Profit Growth over the past four years.

Company	Sector	Market Cap	P/E Ratio	GP 2020	GP 2021	GP 2022	GP 2023	Avg GP/GPG
Jabil Inc	Technology	$12.54B	10.06	1.8B	2.11B	2.61B	2.84B	$2.34B
GPG				6.09%	17.19%	23.73%	8.84%	13.96%
Corning Inc.		$37.96B	62.1	3.85B	4.96B	4.64B	4.04B	$4.37B
GPG				3.61%	28.96%	-6.55%	-12.79%	3.81%
Littelfuse Inc		$6.43B	29.74	461.13M	729.2M	951.22M	834.45M	$744.5M
GPG				-8.04%	58.13%	30.45%	-12.28%	17.56%
Amphenol Group		$77.3B	39.34	2.66B	3.4B	4.03B	4.08B	$3.54B
GPG				2%	27.69%	18.41%	1.39%	12.87%

Findings:

- **P/E Ratio**: Jabil Inc. has the lowest P/E ratio (10.06) compared to the sector average of 43.72.
- **Gross Profit**: Jabil Inc. has a substantial average gross profit ($2.34B) compared to the sector average of $3.63B.

- **Gross Profit Growth**: Jabil Inc's average gross profit growth (13.96%) is comparable to the sector average of 10.89%.

The comparative analysis indicates that Jabil Inc. is undervalued relative to its peers, given its significantly lower P/E ratio and robust gross profit growth.

Current Valuation

Methodology: The current valuation involves comparing the market cap and P/E ratio of Jabil Inc. with its sector peers.

- **Jabil Inc**: Market Cap - $12.54B, P/E Ratio - 10.06
- **Sector Peers Average**: Market Cap - $32.81B, P/E Ratio - 43.72

Findings:

- Jabil Inc.'s market cap is lower than the sector average, indicating growth potential.
- The P/E ratio of Jabil Inc. is significantly lower than the sector average, suggesting it may be undervalued.

Valuation Model

Model Development: The Discounted Cash Flow (DCF) model is used to project Jabil Inc.'s future value over the next five years.

Assumptions:

- Industry Growth Rate: 9% (calculated as the average growth rate of the sector peers)
- Discount Rate: Assumed based on industry standards (e.g., WACC for the technology sector)

Projections:

- **2024**: $2.84B × (1 + 0.09) = $3.10B
- **2025**: $3.10B × (1 + 0.09) = $3.37B
- **2026**: $3.37B × (1 + 0.09) = $3.68B
- **2027**: $3.68B × (1 + 0.09) = $4.00B
- **2028**: $4.00B × (1 + 0.09) = $4.37B

DCF Calculation:

- Discount factor for each year (assuming a discount rate of 10%):
  - **2024**: 1(1+0.10)1=0.909\frac{1}{(1 + 0.10)^1} = 0.909(1+0.10)11=0.909
  - **2025**: 1(1+0.10)2=0.826\frac{1}{(1 + 0.10)^2} = 0.826(1+0.10)21=0.826
  - **2026**: 1(1+0.10)3=0.751\frac{1}{(1 + 0.10)^3} = 0.751(1+0.10)31=0.751
  - **2027**: 1(1+0.10)4=0.683\frac{1}{(1 + 0.10)^4} = 0.683(1+0.10)41=0.683
  - **2028**: 1(1+0.10)5=0.621\frac{1}{(1 + 0.10)^5} = 0.621(1+0.10)51=0.621
- **DCF Values**:
  - **2024**: $3.10B × 0.909 = $2.82B
  - **2025**: $3.37B × 0.826 = $2.78B
  - **2026**: $3.68B × 0.751 = $2.76B
  - **2027**: $4.00B × 0.683 = $2.73B

- **2028**: $4.37B × 0.621 = $2.71B
- **Total DCF**: $2.82B + $2.78B + $2.76B + $2.73B + $2.71B = $13.80B

Conclusion: The DCF analysis indicates a total projected value of $13.80B for Jabil Inc. over the next five years, supporting the conclusion that Jabil Inc. is currently undervalued.

Conclusion

Summary of Findings:

- Jabil Inc. is undervalued based on its low P/E ratio and substantial gross profit compared to sector peers.
- The valuation model projects a significant increase in value over the next five years, further supporting Jabil Inc. as a valuable investment.

Investment Recommendation: Based on the comparative analysis and valuation model, we recommend considering Jabil Inc. as a potential investment due to its strong financial position and growth potential.

4. Healthcare Sector Analysis

Comparative Analysis

The comparative analysis involves evaluating CVS Health Corp against its sector peers: McKesson Corp, Cencora Inc, and Cardinal Health Inc. The metrics analyzed include Market Cap, P/E Ratio, Gross Profit, and Gross Profit Growth over the past four years.

Company	Sector	Market Cap	P/E Ratio	GP 2020	GP 2021	GP 2022	GP 2023	Avg GP/GPG
CVS Health Corp	Healthcare	$74.78B	10.47	48.99B	51.87B	54.82B	54.93B	$52.65B
GPG				8.09%	5.87%	5.69%	0.19%	4.96%
McKesson Corp.	Healthcare	$75.25B	25.94	11.4B	11.58B	12.65B	11.87B	$11.88B
GPG				5.93%	1.60%	9.21%	-6.17%	2.64%
Cencora Inc.	Healthcare	$44.6B	24.46	4.79B	6.27B	7.6B	7.76B	$6.11B
GPG				5.78%	30.83%	21.24%	2.05%	15.47%
Cardinal Health Inc.	Healthcare	$23.15B	42.12	6.35B	6.36B	6.23B	6.6B	$6.38B
GPG				0.75%	0.19%	-2.04%	5.96%	1.72%

Findings:

- **P/E Ratio**: CVS Health Corp has the lowest P/E ratio (10.47) compared to the sector average of 30.84.
- **Gross Profit**: CVS Health Corp has the highest average gross profit ($52.65B) compared to the sector average of $8.28B.
- **Gross Profit Growth**: CVS Health Corp's average gross profit growth (4.96%) is lower than the sector average of 10.13%.

The comparative analysis indicates that CVS Health Corp is undervalued relative to its peers, given its significantly lower P/E ratio and higher gross profit.

Current Valuation

Methodology: The current valuation involves comparing the market cap and P/E ratio of CVS Health Corp with its sector peers.

- **CVS Health Corp**: Market Cap - $74.78B, P/E Ratio - 10.47
- **Sector Peers Average**: Market Cap - $47.67B, P/E Ratio - 30.84

Findings:

- CVS Health Corp's market cap is higher than the sector average, indicating a strong market position.
- The P/E ratio of CVS Health Corp is significantly lower than the sector average, suggesting it may be undervalued.

Valuation Model

Model Development: The Discounted Cash Flow (DCF) model is used to project CVS Health Corp's future value over the next four years.

Assumptions:

- Industry Growth Rate: 9% (calculated as the average growth rate of the sector peers)
- Discount Rate: Assumed based on industry standards (e.g., WACC for the healthcare sector)

Projections:

- **2024**: 54.93B×(1+0.09)=59.87B54.93B \times (1 + 0.09) = 59.87B54.93B×(1+0.09)=59.87B
- **2025**: 59.87B×(1+0.09)=65.26B59.87B \times (1 + 0.09) = 65.26B59.87B×(1+0.09)=65.26B
- **2026**: 65.26B×(1+0.09)=71.13B65.26B \times (1 + 0.09) = 71.13B65.26B×(1+0.09)=71.13B
- **2027**: 71.13B×(1+0.09)=77.53B71.13B \times (1 + 0.09) = 77.53B71.13B×(1+0.09)=77.53B
- **2028**: 77.53B×(1+0.09)=84.51B77.53B \times (1 + 0.09) = 84.51B77.53B×(1+0.09)=84.51B

DCF Calculation:

- Discount factor for each year (assuming a discount rate of 10%):
    - **2024**: 1(1+0.10)1=0.909\frac{1}{(1 + 0.10)^1} = 0.909(1+0.10)11=0.909
    - **2025**: 1(1+0.10)2=0.826\frac{1}{(1 + 0.10)^2} = 0.826(1+0.10)21=0.826
    - **2026**: 1(1+0.10)3=0.751\frac{1}{(1 + 0.10)^3} = 0.751(1+0.10)31=0.751
    - **2027**: 1(1+0.10)4=0.683\frac{1}{(1 + 0.10)^4} = 0.683(1+0.10)41=0.683
    - **2028**: 1(1+0.10)5=0.621\frac{1}{(1 + 0.10)^5} = 0.621(1+0.10)51=0.621
- **DCF Values**:
    - **2024**: 59.87B×0.909=54.41B59.87B \times 0.909 = 54.41B59.87B×0.909=54.41B
    - **2025**: 65.26B×0.826=53.92B65.26B \times 0.826 = 53.92B65.26B×0.826=53.92B
    - **2026**: 71.13B×0.751=53.42B71.13B \times 0.751 = 53.42B71.13B×0.751=53.42B
    - **2027**: 77.53B×0.683=52.98B77.53B \times 0.683 = 52.98B77.53B×0.683=52.98B
    - **2028**: 84.51B×0.621=52.47B84.51B \times 0.621 = 52.47B84.51B×0.621=52.47B
- **Total DCF**: 54.41B+53.92B+53.42B+52.98B+52.47B=267.2B54.41B + 53.92B + 53.42B + 52.98B + 52.47B = 267.2B54.41B+53.92B+53.42B+52.98B+52.47B=267.2B

Conclusion: The DCF analysis indicates a total projected value of $267.2B for CVS Health Corp over the next five years, supporting the conclusion that CVS Health Corp is currently undervalued.

Conclusion

Summary of Findings:

- CVS Health Corp is undervalued based on its low P/E ratio and strong gross profit compared to sector peers.
- The valuation model projects a significant increase in value over the next five years, further supporting CVS Health Corp as a valuable investment.

Investment Recommendation: Based on the comparative analysis and valuation model, we recommend considering CVS Health Corp as a potential investment due to its strong financial position and growth potential.

OVERALL CONCLUSION

Through this comprehensive analysis, it is evident that Delta Airlines, Toyota Motor Corporation ADR, Jabil Inc, and CVS Health Corporation are undervalued compared to their sector peers. Each of these companies has a significantly lower P/E ratio than the sector average, and their gross profits and growth rates indicate strong potential for future growth.

RECOMMENDATIONS

Investors seeking opportunities in undervalued stocks should consider these companies due to their strong financial metrics and growth potential. Continuous monitoring of their performance and industry trends is essential for making informed investment decisions.

METHODOLOGY EXPLANATION

Data Collection: Financial data were sourced from Finviz, and gross profit data were obtained from MarketWatch. The data were cleaned and organized into a structured format for analysis.

Metrics:

- **Market Cap**: Represents the total market value of a company's outstanding shares.
- **P/E Ratio**: Price-to-Earnings ratio, a valuation metric comparing the current share price to its per-share earnings.
- **Gross Profit (GP)**: Total revenue minus the cost of goods sold, indicating the company's profitability.
- **Gross Profit Growth (GPG)**: The rate at which a company's gross profit increases over time.

DCF Model: A valuation method used to estimate the value of an investment based on its expected future cash flows. The model projects future gross profits using the average growth rates calculated from historical data.

FINAL THOUGHTS

This detailed analysis provides valuable insights into the financial health and growth potential of companies within the Industrial, Consumer Cyclical, Technology, and Healthcare sectors. This report aims to guide investors toward profitable investment opportunities by identifying undervalued companies.