

## Buyer Beware: Global ex U.S. Large Cap

### Poor Quality, Expensive Valuation, Low ESG Scores

In contrast to our 'Better World' screens that identify high-Quality or cheap-Value names with strong ESG scores, this week we offer the next edition of our 'Buyer Beware' series focused on Global ex U.S. Large Cap companies. To make the list, companies must have poor Quality, expensive Valuation, and low-ranked ESG Performance scores.

Several names on this list may benefit from price momentum: FANGDA CARBON NEW MAT (+28%) and WASTE CONNECTIONS (+19%) are both up significantly year-to-date but are trading well ahead of fundamentals. As we show on page 2, the high-flyer names we picked in our last report have all fallen back significantly.

Figure 1: Buyer Beware Names

Name	Ticker	Country	Market Cap (US\$M)	PRVit	Quality (P - R)	Valuation (V)	ESG Perform. Score	ESG Rating Decile	YTD
Buyer Beware - May 2021									
BAJAJ FINANCE LTD	BAF IN	India	43,918	2	22	95	18	9	7.43%
WASTE CONNECTIONS INC	WCN	Canada	31,842	7	21	75	37	8	18.67%
CHINA MENGNIU DAIRY CO	2319 HK	H.K.	21,707	12	25	73	18	8	-4.81%
SHANGHAI INTL AIRPORT CO LTD	600009 CH	China	13,874	2	9	90	23	9	-36.19%
ODAKYU ELECTRIC RAILWAY CO	9007 JP	Japan	9,745	15	27	72	31	8	-8.53%
ALGONQUIN POWER & UTIL CORP	AQN	Canada	9,538	15	18	71	28	8	-6.19%
SONGCHENG PERFORMANCE DVLF	300144 CH	China	7,673	2	12	87	7	10	8.18%
GRUPO FINANCIERO INBURSA SA	GFINBURO MM	Mexico	6,266	6	17	77	13	10	-2.99%
RYMAN HEALTHCARE LTD	RYM NZ	N. Zealand	5,303	13	19	72	34	9	-2.57%
FANGDA CARBON NEW MAT CO LTD	600516 CH	China	5,298	2	7	82	15	10	28.01%

### ISS ESG

**ESG Performance Score:** This factor provides a numerical score from 0 to 100. Prime Status is based on the ESG rating and a sector-specific Prime threshold. The ESG Rating and Performance Score, however, are comparable over all rated entities. All rated entities with values greater than 50 are considered 'Prime', they score well across Environmental, Social, and Governmental metrics. *The screen includes no Prime companies.*

**ESG Rating Decile Rank:** This factor indicates decile rank relative to industry group (companies) and covered entities (countries) based on assessment of Environmental (E), Social (S), and Governance (G) performance. A decile rank of 1 indicates a high relative performance, while a 10 indicates a low relative ESG performance. *The screen includes 8th, 9th, and 10th decile companies.*

### EVA & PRVit

Our **PRVit framework** compares the operational Quality, or Risk-adjusted Profitability, of a firm to the Value investors are paying in the market. Our Quality score incorporates profitability level and trend and adjusts for the volatility of the earnings and the vulnerability of the firm (leverage, cash flow generation). Our Valuation score looks at wealth multiples (an EVA-centric version of price-to-book) as well as a look at the market-implied expectations for future value creation. When the Quality of the firm is ahead of the Value, the company receives a high PRVit score and is attractive. In this report, we have showcased the opposite: companies where Valuation is well ahead of the operational Quality the company has produced. *The screen only includes the lowest Quality, the most expensive Valuation, and the most unattractive Quality/Value trade-off companies.*

### Notes

**PRVit** compares the Quality of a firm's Risk-adjusted Profitability to the Value paid in the market. The factor is scored 0 to 100 where 100 is the most attractive. This screen looks at the most un-favorable names (scores below 30).

**ISS ESG Performance Score** is a composite score of different environmental, social, and governance factors that assess corporate sustainability performance and impact.

### Criteria

- Global ex U.S. universe
- Market Cap > \$5B (USD)
- PRVit < 30
- Quality < 30
- Value Score (V) > 70
- ESG Rating Decile > 7 (worst 3 deciles of ESG performance)

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### About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +20,000 stock universe.

Visit our website [www.EVAexpress.com](http://www.EVAexpress.com)

**Buyer Beware – February 2021 Update**

The companies in **Figure 2** are from our original [Global ex U.S. Large Cap Buyer Beware](#) report. We have provided updated scores (PRVit, Quality, Value and ESG) as well as the market returns since the report was published on February 11<sup>th</sup>. Overall, 91% of the names underperformed the MSCI World ex USA Index, and the average return for the group was -5.60%, -1208bps below the index.

We have highlighted in red font the values that no longer fit the criteria laid out on page 1 for the screen. Of the initial 22 names selected, 13 continue to fit all of the criteria. All continue to be unattractive in PRVit, and none have achieved better ESG scores.

**DMART IN**, **ZHEJIANG HUAYOU COBALT**, **AVIC XI'AN AIRCRAFT**, and **ADANI ENTERPRISES** all saw improvements to their Quality scores. **CHINA MOLYBDENUM** became a little cheaper. **ZUR ROSE** and **HUTCHMED** fit the scoring criteria but have seen their market cap slip below the threshold of \$5B (USD).

**ZUR ROSE**, **RONGSHENG**, **POSCO**, and **TONGWEI** all had price momentum when they were included on the January report (77%, 57%, 39%, and 39% YTD, respectively). Since the report, all have had returns well below the index; **RONGSHENG** and **ZUR ROSE** are the two biggest losers in the group.

**Figure 2: February 2021 Buyer Beware Picks with Current Scores**

Name	Ticker	Country	Market Cap (US\$M)	PRVit	Quality (P - R)	Valuation (V)	ESG Perform. Score	ESG Rating Decile	Returns
<b>Buyer Beware - February 2021</b>									
ICICI BANK LTD -ADR	IBN	India	56,623	2	27	96	24	7	-2.11%
NIPPON PAINT HOLDINGS CO LTD	4612 JP	Japan	34,777	4	24	92	12	10	-18.27%
RONGSHENG PETROCHEMICAL CO	002493 CH	China	27,170	7	17	72	8	10	-40.00%
TONGWEI CO LTD	600438 CH	China	26,154	7	24	80	12	9	-26.97%
MAGAZINE LUIZA SA	MGLU3 BZ	Brazil	23,658	4	19	95	14	8	-26.04%
AVENUE SUPERMARTS LTD	DMART IN	India	25,153	6	62	100	11	9	3.54%
SM PRIME HOLDINGS	SMPH PM	Philippines	19,967	1	5	87	20	9	-9.19%
BAJAJ FINSERV LTD	BJFIN IN	India	23,833	0	6	94	19	9	11.55%
CHINA MOLYBDENUM CO LTD	603993 CH	China	18,431	15	24	66	18	8	-8.81%
HUAZHU GROUP LTD -ADR	HTHT	China	18,333	2	9	84	10	10	-7.10%
ZHEJIANG HUAYOU COBALT CO	603799 CH	China	14,190	8	43	92	16	9	-14.24%
AVIC XI'AN AIRCRAFT INDUSTRY	000768 CH	China	11,010	18	56	87	16	8	-16.21%
GULF ENERGY DEVELO	GULF TB	Thailand	12,252	1	3	97	27	8	-5.38%
POSCO CHEMICAL CO LTD	003670 KS	S. Korea	10,064	1	5	95	13	9	-1.70%
ADANI ENTERPRISES LTD	ADE IN	India	18,321	8	38	91	17	10	101.44%
KOSE CORP	4922 JP	Japan	8,751	19	27	70	27	8	-9.00%
TAIWAN COOPERATIVE FINL HLDG	5880 TT	Taiwan	9,889	2	8	80	19	8	6.38%
SPRING AIRLINES CO LTD	601021 CH	China	8,771	3	13	88	14	9	-2.55%
INTERGLOBE AVIATION LTD	INDIGO IN	India	8,904	1	13	97	14	10	5.17%
ZUR ROSE GP	ROSE SW	CHE	3,787	0	0	93	6	10	-34.34%
WIZZ AIR HOLDINGS PLC	WIZZ LN	U.K.	5,686	8	16	75	16	8	-2.01%
HUTCHMED (CHINA) LTD -ADR	HCM	H.K.	3,832	13	24	74	11	10	-27.47%
Average									-5.60%
MSCI WORLD x USA									6.47%
MXWOU Index									

## About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering 20,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

## Key EVA Concepts

**The value of a firm = Capital + Present Value of EVA**

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

**EVA = NOPAT - Capital Charge**

EVA is profit after all costs, including the cost of giving shareholders a decent return.

**EVA Margin = EVA / Sales**

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

**EVA Momentum =  $\Delta$  EVA / Sales**

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

**EVA Shock =  $\Delta$  EVA Momentum**

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

**Market Implied Momentum (MIM)**

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

**Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV**

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

## Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

Best Practice EVA ([link](#)): A summary of Bennett Stewart's most recent book on EVA, available for purchase on [Amazon.com](#)

What Determines TSR ([link](#)): Insight into the relationship between EVA and stock prices

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