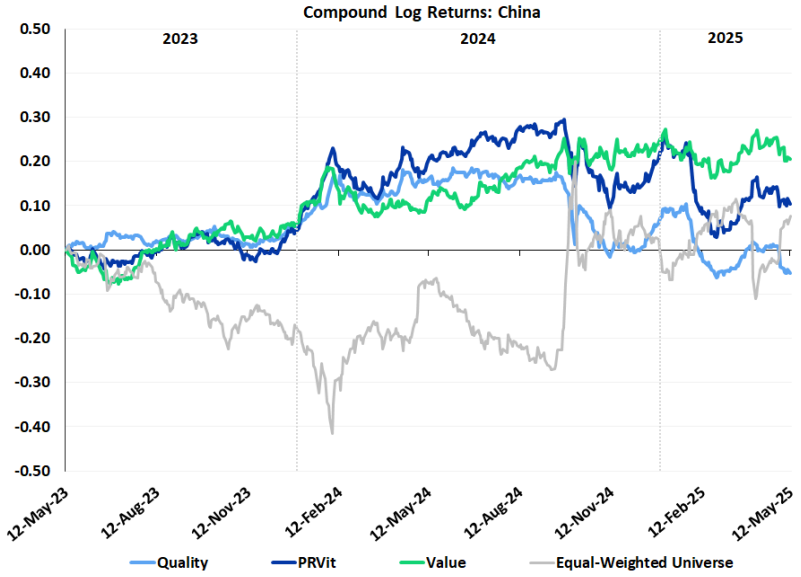
PRVit Factor Report – China

Results through Mid-May

Quality, Value, and PRVit have had strong performance from the end of February 2025 through the first week of April. All three factors slipped during the rest of April. In **Figure 1** below, we provide the cumulative compound spreads (top quintile less bottom quintile) of PRVit, Quality, and Value.

Figure 1: Factor Performance – China



Detailed Results

In **Figure 2**, we provide the top-bottom spread (see sidebar for more on the calculation of the "spread") and the information coefficients for the China universe over various time slices.

Over time, Quality has strong performance, generating +60bps/month, driven by both Profitability (+54bps/month) and Risk (+40bps/month). Value has a lower spread over time (+20bps/month) but has been strong over the last three years (+96bps/month). Vulnerability (R2, looks at cash flow and leverage metrics) has been a strong performer over the last year (+59bps/month), higher than its historical average of +30bps/month.

Figure 2: Factor Performance - China

China	1M		3M		1Y		3Y		5Y		10Y		Since Dec'07	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	-2.0%	0.24%	-2.5%	-0.78%	0.4%	-0.45%	0.1%	-0.26%	0.7%	-0.12%	3.9%	0.62%	3.3%	0.54%
Profitability Level (High P1)	-2.1%	0.11%	-1.9%	-0.50%	0.9%	-0.53%	0.5%	-0.24%	1.0%	-0.12%	4.3%	0.66%	3.0%	0.38%
Profitability Trend (High P2)	-1.5%	0.80%	-2.9%	-0.86%	-0.6%	-0.22%	-0.6%	-0.08%	0.2%	-0.02%	2.4%	0.48%	3.0%	0.71%
Risk (Low R)	9.1%	1.49%	2.7%	-0.46%	3.5%	-0.28%	6.1%	1.01%	5.1%	0.76%	4.6%	0.58%	3.5%	0.40%
Volatility (Low R1)	7.3%	1.18%	1.5%	-1.15%	3.2%	-0.78%	6.8%	0.74%	6.5%	0.75%	5.7%	0.63%	4.1%	0.38%
Vulnerability (Low R2)	6.5%	1.55%	2.5%	0.44%	2.2%	0.59%	3.1%	0.91%	1.8%	0.48%	1.6%	0.33%	1.3%	0.30%
Quality (High P - R)	1.4%	0.76%	-1.1%	-1.18%	1.6%	-0.70%	2.3%	0.09%	2.4%	0.20%	4.9%	0.74%	4.0%	0.60%
Valuation (Low V)	0.7%	-0.16%	2.0%	0.14%	5.3%	0.84%	4.7%	0.96%	4.3%	0.67%	3.4%	0.36%	1.5%	0.20%
Valuation Ratios (Low V1)	0.9%	-0.08%	2.4%	0.41%	5.2%	0.83%	4.6%	0.89%	4.0%	0.69%	3.2%	0.34%	1.6%	0.25%
Valuation Multiples (Low V2)	-1.5%	-1.04%	0.5%	-0.86%	4.2%	0.10%	4.6%	0.77%	4.4%	0.68%	3.7%	0.37%	1.3%	0.12%
PRVit	2.4%	0.05%	-0.3%	-1.27%	4.6%	-0.22%	4.9%	0.62%	5.1%	0.70%	6.6%	0.96%	4.8%	0.79%
PRVit Prime	4.1%	0.37%	0.0%	-1.34%	4.6%	-0.22%	5.0%	0.64%	5.2%	0.73%	6.7%	0.97%	4.9%	0.82%

See **Figure 3** on page 2 for the compound log returns of the key factors Profitability, Risk, and Valuation over time and plotted alongside the overall market performance for China (equal-weighted returns of the EVA universe of companies with a market cap over $1B).

Notes

With tariffs on hold for negotiations, we take a quick look at China in the EVA Framework. Besides the factor performance (left), we identify interesting sectors and provide a list of companies that fit our 'Expensive But Worth It' criteria on the HEAT Map.

Key Takeaways:

- Quality worked in April but has struggled over the last year.
- Profitability Trend (P2, our growth metric) has been historically strong (+71bps/month) and worked in April (+80bps).
- Investors took off Risk in April (low-Risk names outperformed high-Risk names).

Methodology:

The spread is the difference between the average return of the top 20% and the bottom 20% of stocks ranked by a factor. The information coefficient ("**IC**") is the cross-sectional correlation between the factor ranks and future returns. In other words, the top quintile should outperform the 2nd quintile, the 2nd quintile should outperform the 3rd quintile, etc. An IC around 5% indicates a very monotonic result.

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About ISS EVA

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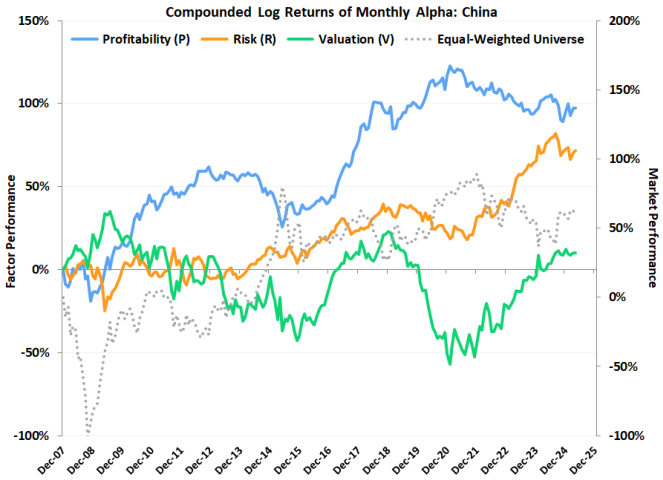
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Compound Total Alpha for Factors

The graph to the right is the compound log returns of the total alpha generated by each of our key factors: Profitability (P), Risk (R), and Value (V). In these graphs, the benchmarks are provided for timing: the alpha lines are not relative to the benchmark lines.

Risk and Valuation have been the strongest factors since 2020. Profitability has generated the most alpha historically, despite the large decline from 2021 to 2023. Profitability rebounded in early 2024 but then rolled over later in the year. Profitability has seen higher volatility in the last year than it typically has historically.

Figure 3: China



PRVit Performance by Sector

Figure 4 show the average monthly PRVit spreads by sector. In April ('1M' column), 4 sectors had a positive PRVit spread. Historically, all sectors except Materials have seen a positive spread from PRVit.

Figure 4: PRVit Performance by Sector

PRVit vs Industry	1M		3M		1Y		3Y		5Y		10Y		Since Dec'07	
China	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	-2.2%	2.60%	-11.5%	-0.63%	2.8%	1.25%	7.6%	1.33%	10.9%	2.59%	7.1%	1.38%	5.4%	1.47%
MATERIALS	-2.1%	-0.70%	-4.1%	-1.75%	4.8%	0.02%	3.6%	-0.13%	1.6%	-0.74%	3.7%	0.07%	1.2%	-0.28%
INDUSTRIALS	3.0%	0.68%	-2.6%	-1.57%	4.2%	-0.48%	6.1%	0.69%	6.5%	1.15%	8.8%	1.44%	6.4%	0.92%
CONS DISC	-6.4%	-1.83%	-4.8%	-2.56%	0.8%	-0.95%	6.5%	0.95%	5.9%	0.77%	7.7%	1.34%	5.5%	0.84%
CONS STAP	-1.6%	-1.06%	6.9%	0.93%	5.0%	0.63%	3.8%	0.52%	3.7%	0.62%	6.6%	0.93%	3.6%	0.39%
HEALTH CARE	-1.5%	-7.27%	-11.8%	-8.39%	2.6%	-1.50%	6.2%	0.83%	7.1%	0.92%	7.2%	1.55%	4.7%	1.17%
FINANCIALS	48.9%	6.26%	21.1%	2.16%	17.1%	0.55%	9.9%	0.71%	8.1%	0.47%	8.3%	0.38%	6.0%	0.56%
INFO TECH	-11.6%	-4.13%	-4.1%	-3.35%	5.0%	-0.04%	3.6%	0.50%	4.7%	1.24%	5.0%	1.27%	4.1%	1.01%
COMM SVC	21.4%	5.79%	13.8%	-0.02%	6.1%	0.04%	8.8%	1.48%	7.4%	1.38%	13.3%	1.47%	10.6%	1.49%
UTILITIES	-9.0%	-2.00%	-7.7%	-0.48%	4.2%	1.22%	3.1%	1.48%	1.9%	1.00%	3.0%	0.74%	5.5%	0.79%
REAL ESTATE	5.8%	-0.07%	15.1%	3.25%	7.7%	-0.11%	-0.1%	-0.73%	1.7%	0.31%	3.9%	1.20%	3.9%	1.20%

Sector Attractiveness

In **Figure 5**, we provide an update of our sector attractiveness tables for the China universe. Energy, Financials, and Utilities are the most attractive sectors. Overall, China scores a PRVit of 51, which makes the country attractive (PRVit of 50 is neutral).

Pharma, Biotech, and Life Science companies with market caps under $5B have been removed from the analysis, as well as all Real Estate companies.

Figure 5: Current Attractiveness

China	PRVit	Quality	Value
Energy	70	41	34
Financials	64	42	31
Utilities	61	32	37
Health Care	56	50	66
Consumer Staples	54	62	66
Consumer Discretionary	52	55	61
Communication Services	52	44	60
Materials	51	35	51
Industrials	51	42	55
Information Technology	40	35	71
China Average	51	42	57

HEAT MAP: Examining the Zones

*Our HEAT Map captures the key factors that constitute PRVit: the trade-off between Quality and Valuation. Our Quality score is plotted on the y-axis, where the higher the value, the better the quality. Our Valuation factor is plotted on the x-axis, where the cheaper values are to the right and the expensive values are to the left. The green areas are in the 'Favorable' region: the upper left one is our 'Expensive But Worth It' category, where PRVit > 70, Quality > 60, and Valuation > 60; while the lower-right one is our 'Attractive Value' category, where PRVit > 70, Quality < 40, and Valuation < 40. Our 'Best of Best' green box is PRVit > 70, Quality > 60, and Valuation < 40: these companies have the largest disconnect between their Quality and Valuation. The red areas are in the 'Unfavorable' region: the upper-left one is our 'Overly Expensive Quality,' where PRVit < 30, Quality > 60, and Valuation > 60; while the lower-right one is our 'Value Traps,' where PRVit < 30, Quality < 40, and Valuation < 40. And, of course, we highlight the 'Worst of Worst' in the red box, where PRVit < 30, Quality < 40, and Valuation > 60: we sometimes refer to these as 'Story Stocks,' because if you own these, you better have a good story (see **Figure 6**).*

Figure 6: HEAT Map Zones



HEAT Map Primer

The beauty of the HEAT map is the visual trade-off between **Quality** and **Valuation**: companies in the favorable (blue) area offer higher quality and/or cheaper valuation than those in the unfavorable (red) area.

The y-axis is our measure of **Quality**, where the higher the score, the higher the company's quality or Risk-Adjusted Profitability is. This is a composite score, including Level and Trend of Profitability (P1 and P2) as well as Volatility and Vulnerability (R1 and R2).

The x-axis is our measure of **Valuation,** which includes Wealth Ratios and Wealth Multiples (V1 and V2). This axis is plotted in reverse, so the most expensive stocks (highest V scores) are to the left and the cheapest V scores are plotted to the right.

The upper left area tends to contain growth names while the bottom right area tends to contain the value plays.

Figure 7: HEAT Zones Results

Over the last year, our **Value Trap** zone had the strongest performance (+81bps/month). **Expensive But Worth It** has the strongest performance historically (averaging +59bps per month). **Overly Expensive Quality** worked over the last month, quarter, and year and is the second-strongest zone historically.

Worst of the Worst, **Attractive Value**, and **Value Trap** underperform historically.

See the next page for a list of **Expensive But Worth It** names.

Note **Figure 10**, page 4, was easily created using the new screening criteria option for HEAT Map zones. See our recent report New Feature: EVA HEAT Zone in Screening for more details.

Figure 8: HEAT Zones Results

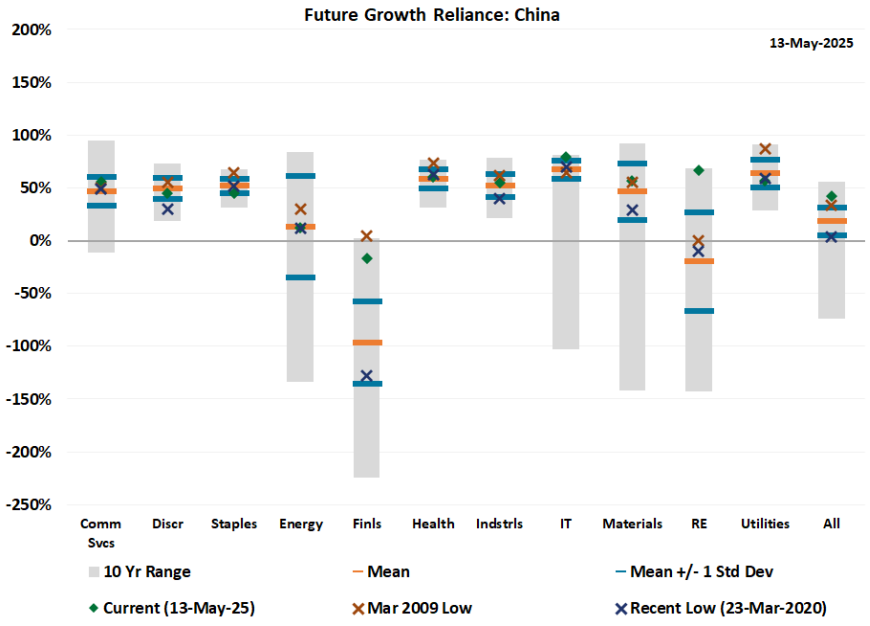
Avg Monthly Spread vs Benchmark							Dec
Zones	1M	3M	1Y	3Y	5Y	10Y	2007
Best of the Best	-0.19%	-0.76%	-0.20%	0.44%	0.28%	0.30%	-0.13%
Expensive But Worth It	0.64%	-0.90%	-0.85%	0.05%	0.21%	0.68%	0.59%
Overly Expensive Quality	1.69%	0.98%	0.47%	-0.34%	-0.22%	0.33%	0.21%
Attractive Value	1.73%	-1.11%	-0.57%	-0.05%	0.60%	0.57%	-0.34%
Value Trap	-0.22%	1.34%	0.81%	0.22%	-0.16%	-0.06%	-0.58%
Worst of the Worst	0.27%	0.65%	-0.04%	-0.28%	-0.35%	-0.47%	-0.34%

Expectations Analysis

A key driver of our Value scores is the embedded expectations of the market. For this, we use the Future Growth Reliance (FGR) metric, which computes the implied future EVA growth.

Figure 9 below plots the FGR over the last 10 years – the gray area is the overall range (min to max), the orange lines represent the mean, the greenish-blue lines show the mean plus/minus 1 standard deviation, the green diamonds represent the current value, the red 'Xs' indicate the lows from March 2009, and the blue 'Xs' represent the lows of March 2020. **Figure 11** shows the same data points for Japan.

Figure 9: Expectations Analysis China



Formulas

Future Growth Reliance (FGR) = FVA / Market Cap

Future Value Added (FVA) = Market Cap – Current Value Added (CVA)

Current Value Added (CVA) = EVA / Cost of Capital (no-growth scenario)

NOTE: Parenthetical values below are the z-score: (current value – 10 year mean)/standard deviation

China

Financials (+2.0x), Real Estate (+1.8x), and IT (+1.5x) have the highest expectations relative to their 10-year means. Staples (-1.1x), Utilities (-0.5x), and Discretionary (-0.5x) have the lowest expectations.

Figure 10: Screen – Current Expensive But Worth It with Market Cap > $5B

Expensive But Worth It	Ticker	GICS Sector	Mkt Cap ($mm)	EVA Margin (%)	EVA Momentum (%)	FGR (%)	PRVit Score	Quality (P-R)	Risk Score (R)	Valuation Score (V)
YIBIN WULIANGYE CO LTD	000858 CH	Consumer Staples	71,689	32.3%	2.1%	7.8%	90	100	9	80
LUZHOU LAOJIAO CO LTD	000568 CH	Consumer Staples	25,757	36.1%	-1.9%	-0.9%	87	93	27	70
NARI TECHNOLOGY CO LTD	600406 CH	Industrials	25,644	9.4%	8.7%	47.6%	92	96	20	80
SUNGROW POWER SUPPLY CO LTD	300274 CH	Industrials	19,521	11.4%	1.4%	-0.1%	92	86	62	60
JD HEALTH INTERNATIONAL INC	6618 HK	Consumer Staples	15,596	2.2%	2.1%	57.9%	89	93	22	69
YUNNAN BAIYAO GROUP CO LTD	000538 CH	Health Care	14,139	4.6%	2.1%	47.6%	97	95	2	69
GONEO GROUP CO LTD	603195 CH	Industrials	12,990	20.3%	-0.8%	54.6%	88	99	4	93
GUANGDONG HAID GROUP CO LTD	002311 CH	Consumer Staples	12,555	2.3%	1.6%	34.3%	91	94	16	64
TSINGTAO BREWERY CO LTD	600600 CH	Consumer Staples	11,879	10.4%	-0.7%	30.2%	87	95	18	74
ANHUI GUJING DISTILLERY CO	200596 CH	Consumer Staples	11,279	18.9%	0.8%	1.3%	95	99	8	67
HANGZHOU HUADONG MEDICINE CO	000963 CH	Health Care	9,503	4.1%	1.0%	33.8%	97	90	16	60
MIXUE GROUP	2097 HK	Consumer Discretionary	8,899	14.8%	5.0%	17.8%	93	97	26	81
HUALI INDUSTRIAL GROUP CO	300979 CH	Consumer Discretionary	8,829	10.8%	0.9%	32.2%	88	94	14	75
JIANGSU KING'S LUCK BREWERY	603369 CH	Consumer Staples	8,348	22.3%	0.0%	22.4%	85	96	18	79
YUTONG BUS CO LTD	600066 CH	Industrials	8,203	8.3%	5.4%	29.9%	94	97	18	76
SIEYUAN ELECTRIC CO LTD	002028 CH	Industrials	8,011	8.8%	2.5%	57.4%	91	98	5	86
CHINA RESOURCES SANJIU MED	000999 CH	Health Care	7,521	5.4%	-0.6%	34.8%	94	83	24	63
ANKER INNOVATIONS LTD	300866 CH	Information Technology	7,373	6.2%	2.7%	51.7%	92	91	39	77
SHANDONG HIMILE MECH SCIENCE	002595 CH	Industrials	6,715	11.5%	2.9%	57.5%	89	97	10	88
ZHEJIANG SUPOR CO	002032 CH	Consumer Discretionary	6,313	7.9%	0.4%	51.4%	87	99	1	88
YEALINK NETWORK TECH CO LTD	300628 CH	Information Technology	6,196	33.7%	8.5%	47.2%	94	99	14	88
PROYA COSMETICS CO	603605 CH	Consumer Staples	5,459	12.0%	2.9%	52.6%	83	99	15	92
ANHUI YINGJIA DISTILLERY CO	603198 CH	Consumer Staples	5,116	27.5%	-2.1%	9.1%	83	92	19	73

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

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