



Industry and Company Analysis

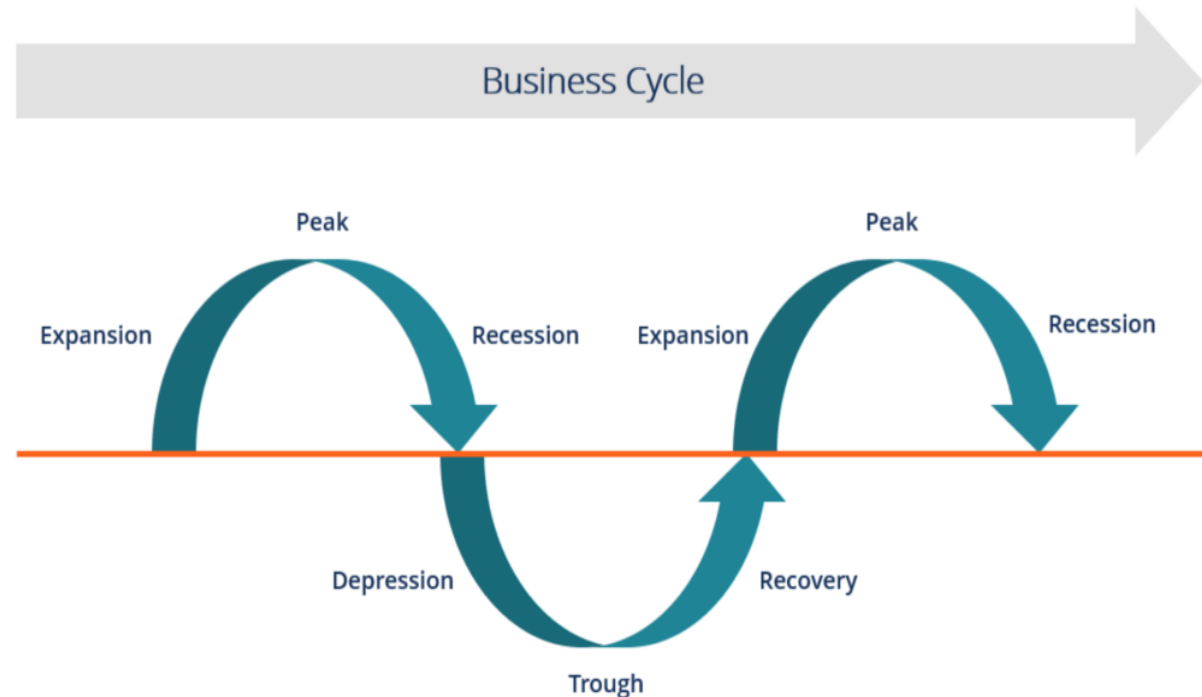
EE532 Selected Topics in Monetary Economics 2

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Where Are We In the Business Cycle?

- Business cycle is the fluctuation of the economy between periods of expansion and contraction
- There are 6 stages
 1. Expansion: Increase in positive economic indicators such as employment, income, output, wages, profits, etc.
 2. Peak: Economic indicators do not grow further and at their peak
 3. Recession: Demand for goods and services starts declining rapidly, while price tend to fall as producers keep producing
 4. Depression: Growth of the economy continues to decline and unemployment rate rises
 5. Trough: Economy's growth rate becomes negative
 6. Recovery: Turnaround from the trough and the economy starts recovering from the negative growth rate



Definition and Uses of Industry Analysis

- **Industry Analysis** is the analysis of a specific branch of manufacturing, service, or trade, which will provide an essential for the **Company Analysis**
- Uses of Industry Analysis
 - Understanding a company's business and business environment
 - Identifying active equity investment opportunities
 - Portfolio performance attribution
- Approaches to identifying similar companies
 - Classify by products and/or services supplied
 - Classify by business-cycle sensitivities
 - Classify by statistical similarities

Approaches To Identifying Similar Companies (Cont'd)

Approach 1: Classify By Products and/or Services Supplied

- Do industry and sector share the same definition?
 - **Industry** is defined as a group of companies offering similar products and/or services
 - **Sector** is used to refer to a group of related industries
 - For example, financial sector can be broken down into several different industries such as banks, asset management, insurance, or brokerages
- A company's **principal business activity** is the source from which the company derives a majority of its revenue and/or earnings

Approaches To Identifying Similar Companies (Cont'd)

Approach 2: Classify By Business-cycle Sensitivities

- **Cyclical company** is one whose profits are strongly correlated with the strength of the overall economy
 - High fluctuations in demand
 - High profit variability related to high operating leverage
 - For example, autos, housing, basic materials, industrials, and technology
- **Non-cyclical company** is one whose performance is largely independent of the business cycle
 - Demand remains relatively stable throughout the business cycle
 - For example, food and beverage, household and personal care products, health care, and utilities
- Limitations
 - The business cycle is a continuous spectrum rather than an “either/or” issue
 - Different countries and regions of the world frequently progress through the various stages of the business cycle at different times

Approaches To Identifying Similar Companies (Cont'd)

Approach 3: Classify By Statistical Similarities

- The company is categorized based on the correlation of past securities returns that is high among members within the same class and low between members of different categories
- Given the statistical approaches rely on historical data, there is no guarantee that past correlation values will continue in the future
- This approach might carry the inherent dangers of all statistical methods, including
 - Falsely indicating a relationship that arose because of chance
 - Falsely excluding a relation that actually is significant

Workshop 1

Classifying Companies Into Industries

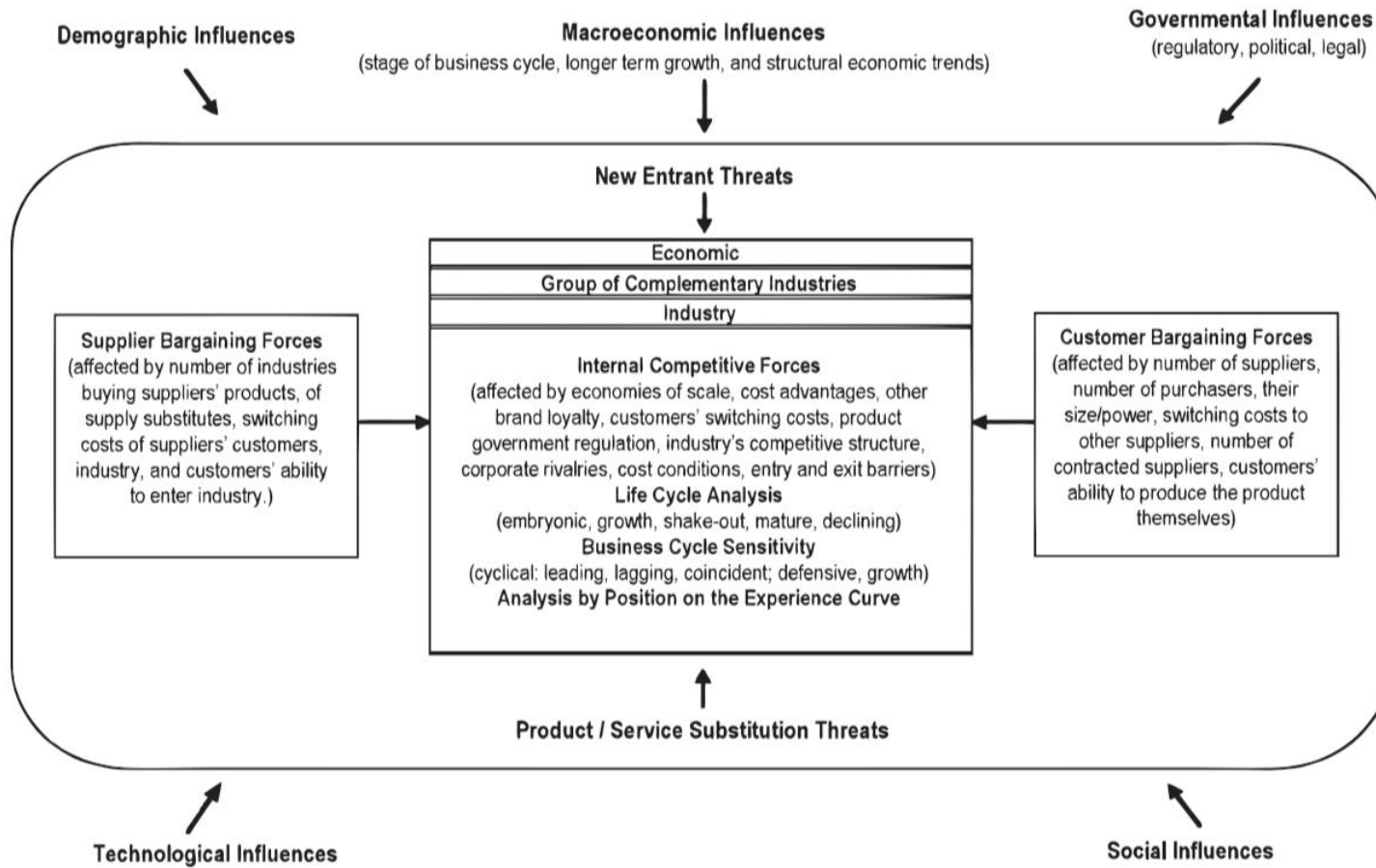
Sector	Company Number
Basic Materials and Processing	
Consumer Discretionary	
Consumer Staples	
Energy	
Financial Services	
Health Care	
Industrial/Producer Durables	
Technology	
Telecommunications	
Utilities	

Number	Company
1	A natural gas transporter and marketer
2	A manufacturer of heavy construction equipment
3	A provider of regional telephone services
4	A semiconductor company
5	A manufacturer of medical devices
6	A chain of supermarkets
7	A manufacturer of chemical and plastics
8	A manufacturer of automobiles
9	An investment management company
10	A regulated supplier of electricity
11	A manufacturer of soaps and detergents
12	A manufacturer of pharmaceuticals
13	A manufacturer of luxury leather goods
14	An insurer

Industry Classification Systems (Cont'd)

- **Peer group** is a group of companies engaged in similar business activities whose economics and valuation are influenced by closely related factors
- Steps in constructing a preliminary list of peer companies
 1. Examine commercial classification systems
 2. Review the company's annual report for a discussion of the competitive environment, which it frequently cites specific competitors
 3. Review competitors' annual reports to identify other potential comparable companies
 4. Review industry trade publications to identify comparable companies
 5. Confirm that each comparable company derives a significant portion of its revenue and operating profit from a business activity similar to the primary business of the subject company

Framework for Industry Analysis

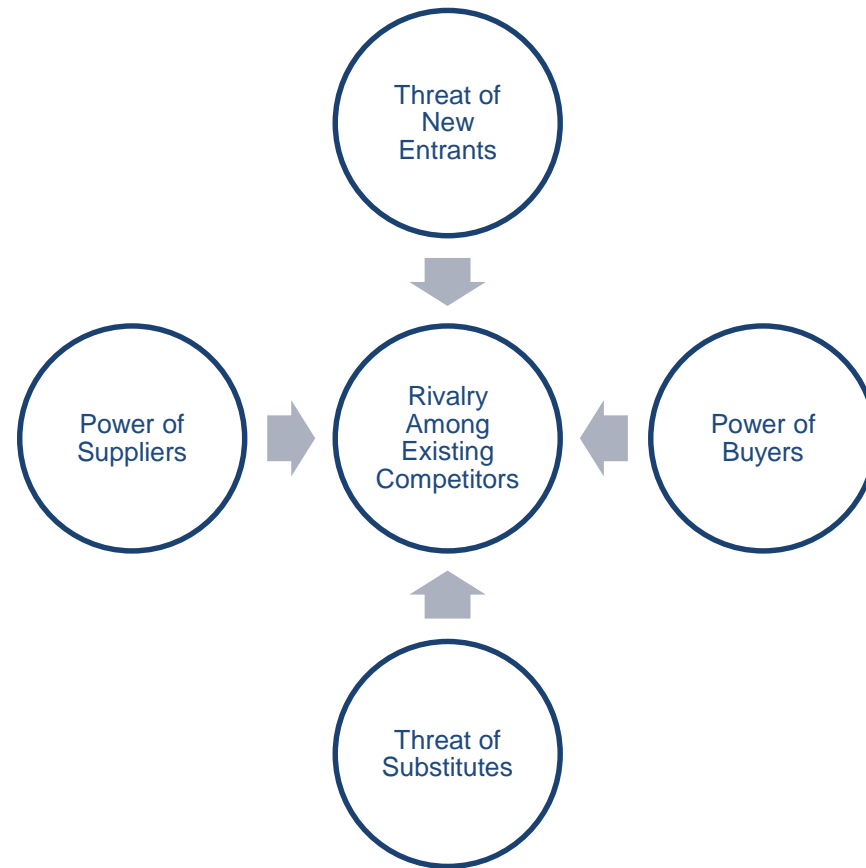


Strategic Analysis

Porter's Five Forces

- Strategic analysis is the analysis of the competitive environment with an emphasis on the implications of the environment for corporate strategy
- In order to conduct strategic analysis, **Porter's Five Forces** could be used as the starting point
 - Porter maintains that the profitability of companies in an industry determined by five forces

Porter's Five Forces

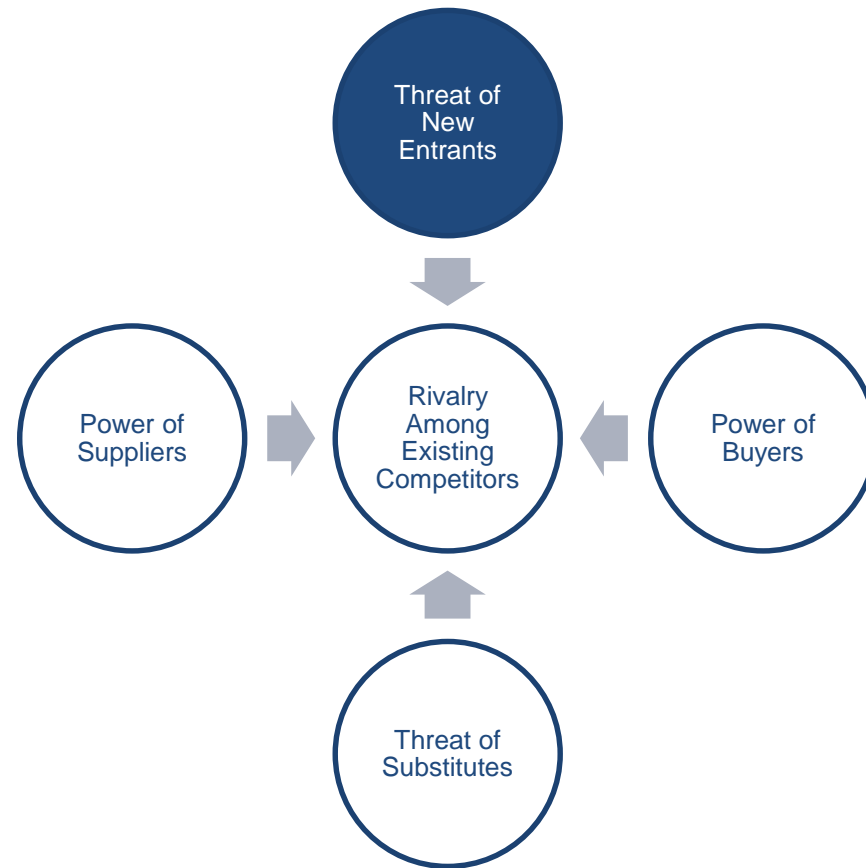


Strategic Analysis (Cont'd)

Porter's Five Forces

- Threat of New Entrants
 - Is it difficult or easy for a new competitor to challenge incumbents?

Porter's Five Forces

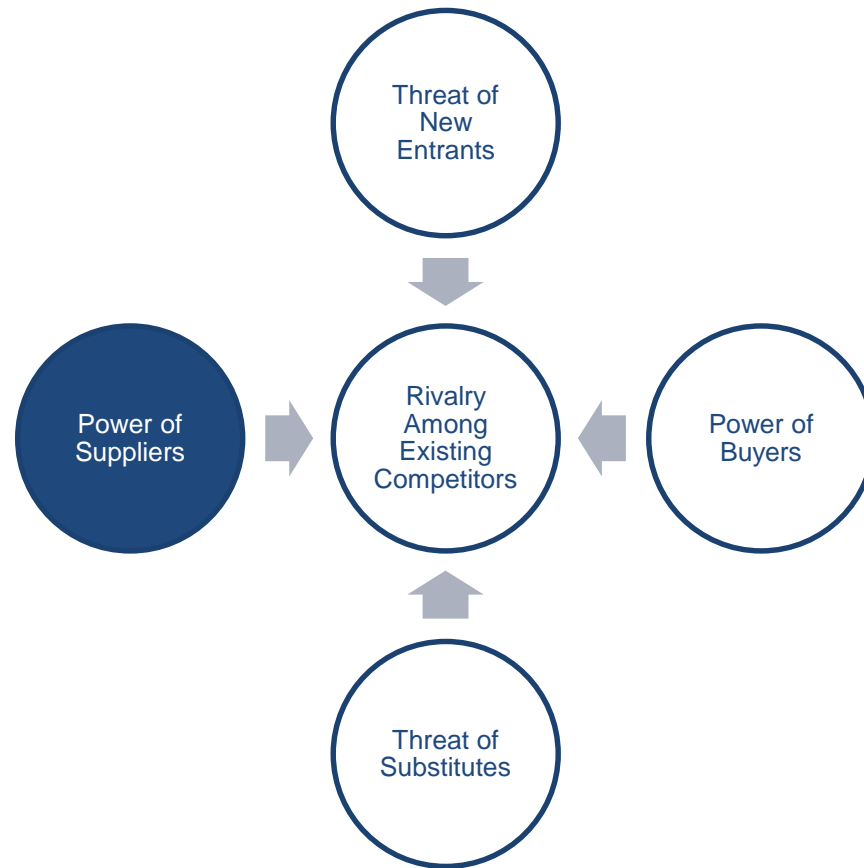


Strategic Analysis (Cont'd)

Porter's Five Forces

- Threat of New Entrants
 - Is it difficult or easy for a new competitor to challenge incumbents?
- Power of Suppliers
 - How difficult for the company to switch a supplier?

Porter's Five Forces

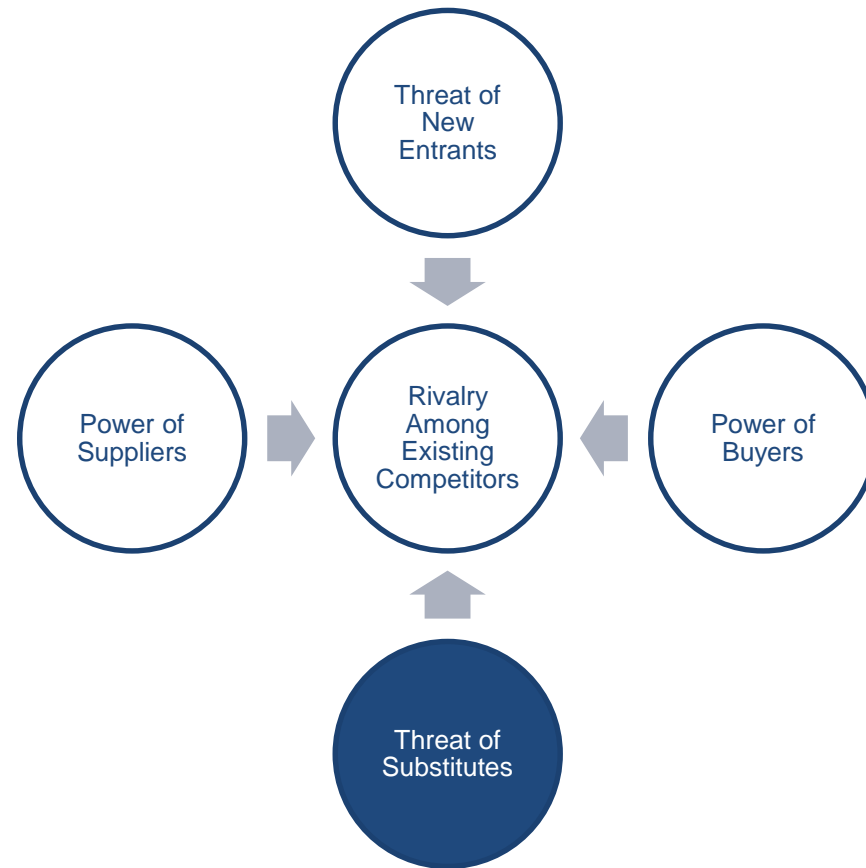


Strategic Analysis (Cont'd)

Porter's Five Forces

- Threat of New Entrants
 - Is it difficult or easy for a new competitor to challenge incumbents?
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 - How difficult for the company to switch a supplier?
- Threat of Substitutes
 - How easy is it to find an alternative products?

Porter's Five Forces

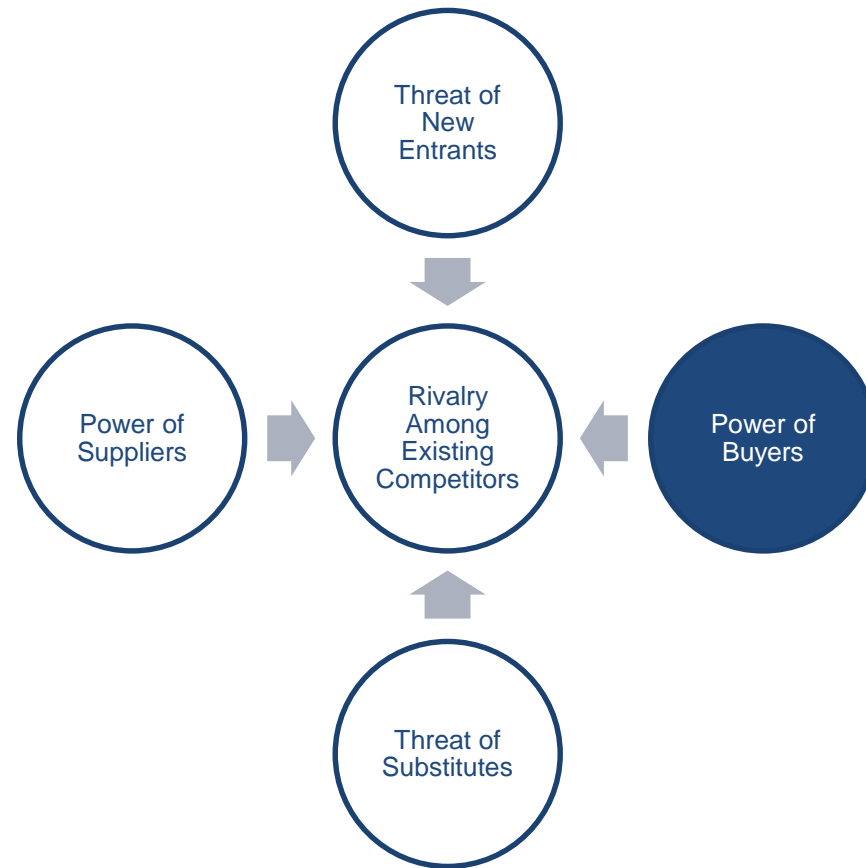


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- Power of Buyers
 - How powerful are your buyers?

Porter's Five Forces

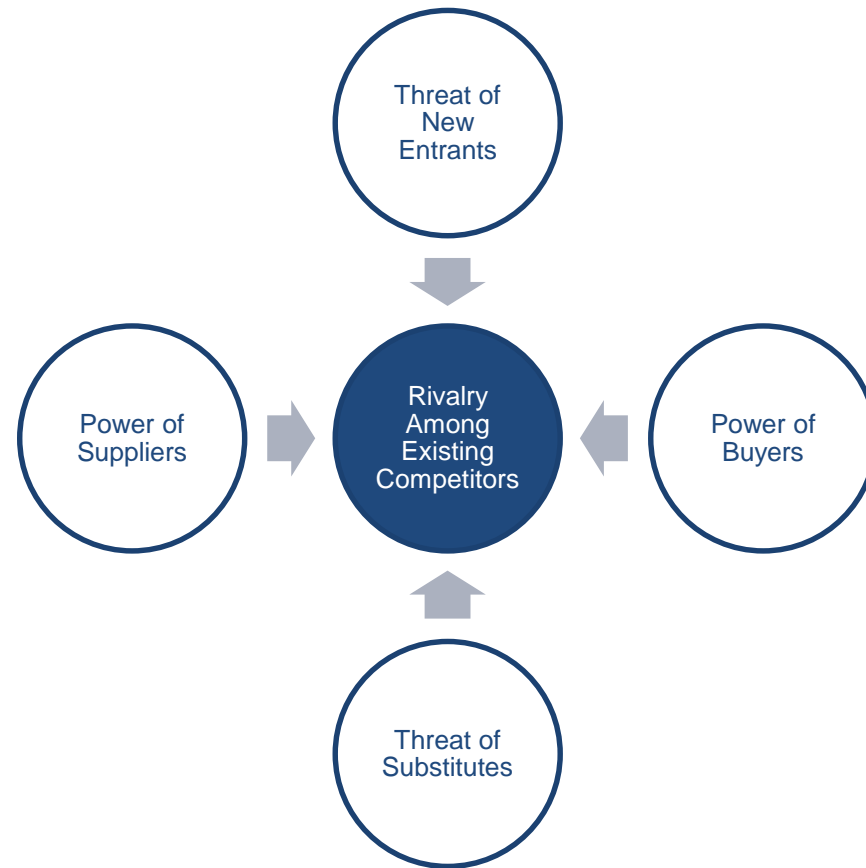


Strategic Analysis (Cont'd)

Porter's Five Forces

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 - How difficult for the company to switch a supplier?
- Threat of Substitutes
 - How easy is it to find an alternative products?
- Power of Buyers
 - How powerful are your buyers?
- Rivalry Among Existing Competitors
 - How concentrated is the industry?

Porter's Five Forces



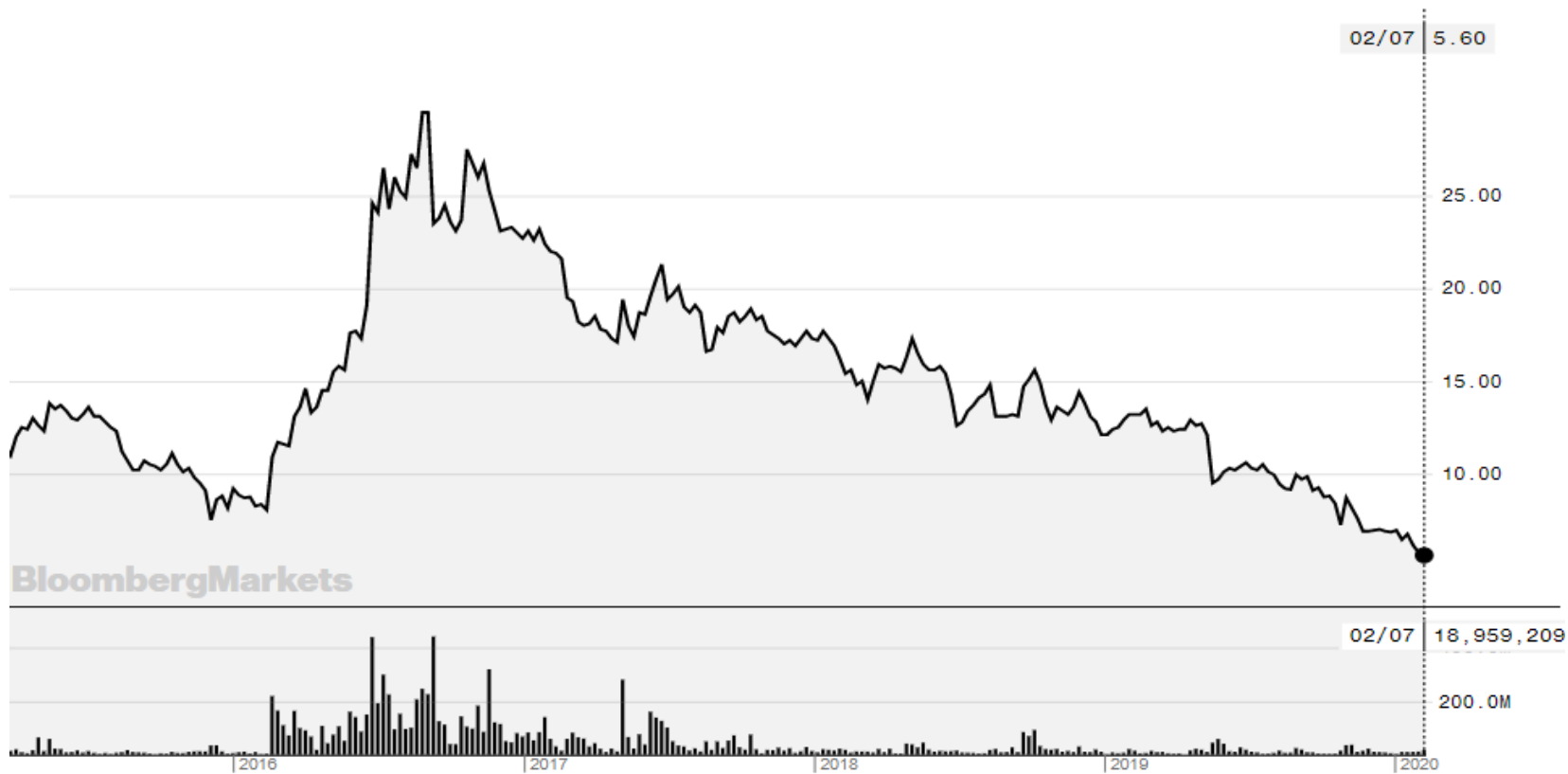
Two Chief Competitive Strategies

- Porter identifies 2 chief competitive strategies, which are
 - 1. Low-cost Strategy**
 - A company becomes the low-cost producers in order to gain a market share by offering their products and services at lower prices than their competition while still making a profit margin sufficient to generate a superior rate of return based on the higher revenues achieves
 - 2. Product/Service Differentiation Strategy**
 - A company attempts to establish themselves as the suppliers or producers of products and services that are unique either in quantity, type, or distribution channel

Does Low Cost Strategy Always Work?

THAI's Share Price

🔍 Add a comparison



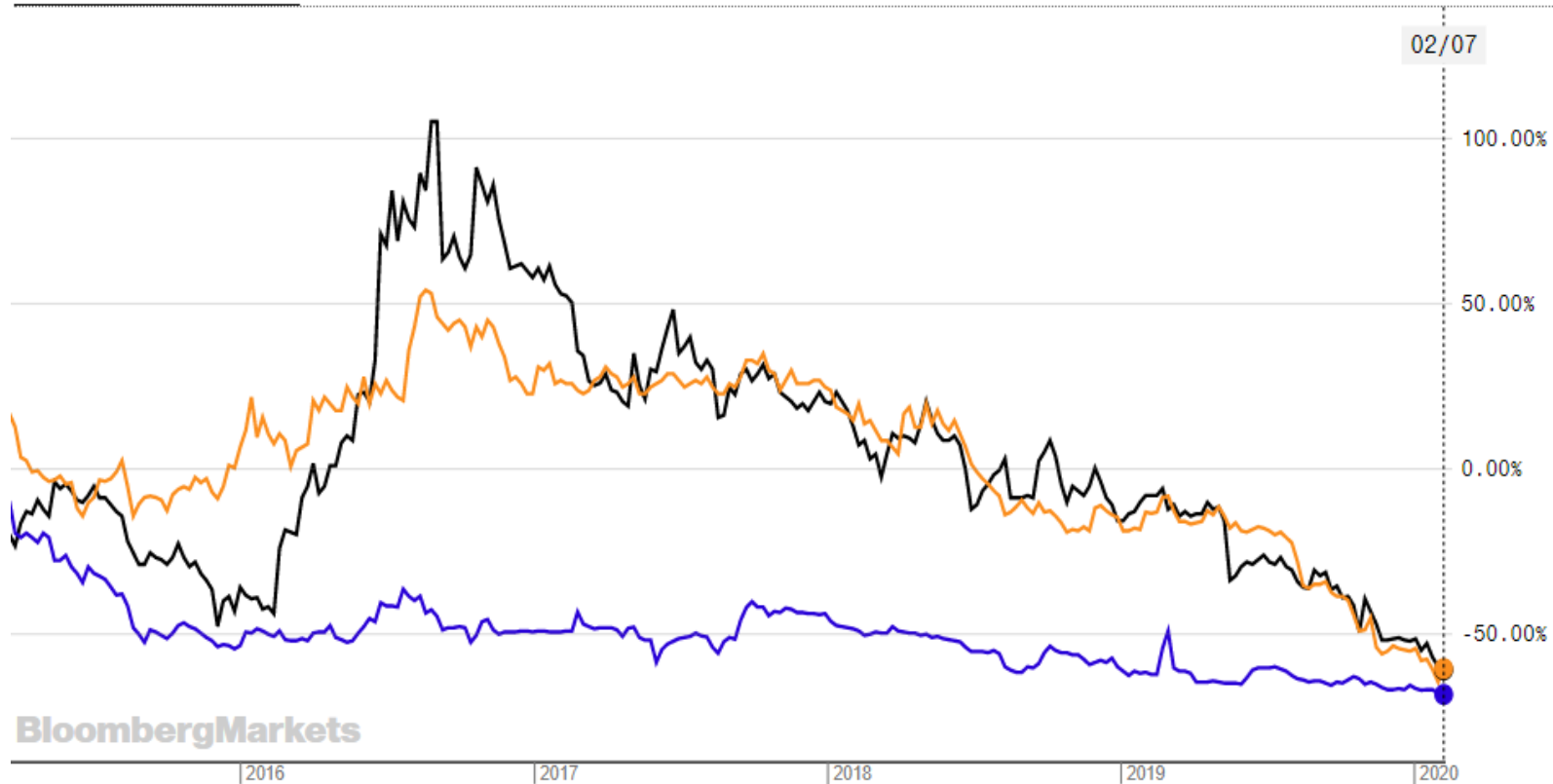
Source: Bloomberg as of 7 Feb 2020

Does Low Cost Strategy Always Work? (Cont'd)

Comparison of Price Performance

🔍 Add a comparison

● **THAI:TB** -61.11% ● **AAV:TB** -60.73% ● **NOK:TB** -68.59%



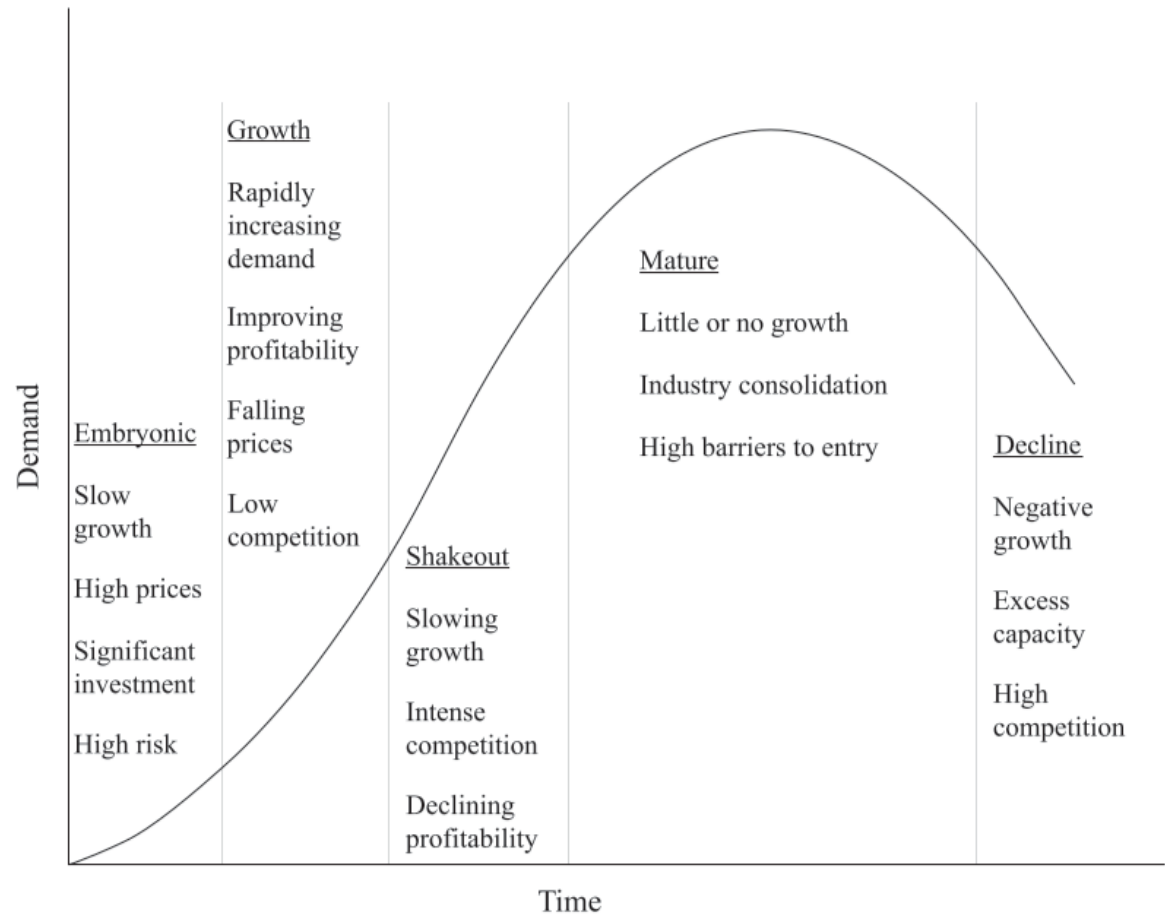
BloombergMarkets

Source: Bloomberg as of 7 Feb 2020

Strategic Analysis (Cont'd)

Industry Life-cycle Model

- Industry life-cycle model identifies the sequential stages that an industry typically goes through
- There are 5 stages
 1. Embryonic
 2. Growth
 3. Shakeout
 4. Mature
 5. Decline



Strategic Analysis (Cont'd)

Industry Life-cycle Model

1. Embryonic Stage

- The industry is just beginning to develop
- Slow growth and high prices because the product/service is new to the market and volumes are not yet reach economies of scale
- Increasing product awareness and developing distribution channels are key strategic initiatives
- Huge investment is required and risk of failure is high

2. Growth Stage

- Rapidly expanding demand, improving profitability, falling prices, and relatively low competition
- Given new competitors entering the industry is usually highest during this stage when the barriers to entry are low, competition is tend to be limited, thanks to the significant increase in demand

Strategic Analysis (Cont'd)

Industry Life-cycle Model

3. Shakeout Stage

- Slowing growth, intense competition, and declining profitability
- Excess capacity begins to develop as the rate at which companies continue to invest exceeds the demand
- In order to fill excess capacity, the companies are often cutting price to boost the volumes

4. Mature Stage

- Little or no growth, industry consolidation, and relatively high barriers to entry
- Mature industries often consolidate and become oligopolies
- Surviving companies tend to have brand loyalty and efficient cost structures, which create the significant barriers to entry
- The companies tend to recognize their interdependence and try to avoid price wars

5. Decline Stage

- Negative growth, excess capacity develops, and increasing competition
- Demand may decline for many reasons, including technological changes, social changes, and global competition

Strategic Analysis (Cont'd)

Industry Life-cycle Model

- Limitations
 - Most useful when the industry is relatively stable
 - Not all companies in an industry experience similar performances

External Influences on Industry Growth, Profitability, and Risk

- Macroeconomics Influences
 - Macroeconomics environment has significant effects on the demand for an industry's products/services
 - GDP growth, interest rates, the availability of credit, and inflation
- Technological Influences
 - New technologies create new or improved products that can radically change an industry
 - What are the most interesting technology right now?
- Demographic Influences
 - Changes in population size, in the distributions of age and gender, and in other demographic characteristics
 - How does aging society impact the economy?
- Governmental Influences
 - In setting tax rates and rules for corporations and individuals, governments affect profits and incomes, which in turn, affect corporate and individuals spending
- Social Influences
 - The way how people work, spend their money, enjoy their leisure time, and conduct other aspects of their lives can have significant effects on the sales

Company Analysis

- After fully understand the company's external environment, including industry environment, the next questions is how the company will respond to the threats and opportunities presented by those external factors.
- Checklist for company analysis
 - Corporate profile
 - Industry characteristics
 - Supply for products/services
 - Pricing
 - Financial Ratios
- How can you find the information?
 - 56-1 / Annual Report
 - Company Presentation
 - Research Paper

How can we quantify the analysis?

- **Spreadsheet modeling of financial statements**
 - It is used to analyze and forecast revenues, operating and net income, and cash flows
 - It can be used to quantify the effects of the changes in certain swing factors on the various financial statements

Workshop 2

Company	Sector	Business Description	Revenue Breakdown	Leverage Ratio
BDMS	Hospital	The large private hospital business with networks in Thailand and Cambodia. The Company operates under 6 hospital groups, namely, Bangkok Hospital Group, Samitivej Hospital Group, BNH Hospital, Phyathai Hospital Group, Paolo Hospital Group and Royal Hospital Group	Cash: SSO:	D/E:
BH	Hospital	A private hospital namely Bumrungrad International hospital in Bangkok, which serves both local and international wards	Cash: SSO:	D/E:
CHG	Hospital	A private hospital with 8 subsidiaries operate large hospitals, small hospitals and clinics totally 14 branches. Chularat Hospital Group coverage service area around Suvarnabhumi Airport, Bangna-Trad Road, Chachoengsao province, highway to Prachinburi province, Chonburi province, Aranyaprathet Sa-Kaeo province, and in Amphoe Muang, Rayong province	Cash: SSO:	D/E:
BCH	Hospital	A group of hospitals which consists of 12 hospitals and 1 polyclinics in Bangkok and upcountry to provide medical services in the level of primary-tertiary care under 4 hospital groups; including World Medical Hospital, Kasemrad International Hospital, Kasemrad Hospital, and Karunvej Hospital	Cash: SSO:	D/E:

Workshop 2 (Cont'd)

Company	Sector	Business Description	Revenue Breakdown	Leverage Ratio
PR9	Hospital	Company operates overnight general hospital under the name of "Praram 9 Hospital"	Cash: SSO:	D/E:
RJH	Hospital	The group of company operates the overnight general hospital under the name of "Rajthanee Hospital" and "Rajthanee Rojana Hospital"	Cash: SSO:	D/E:
