Growth versus Value Investing on the Bursa Malaysia during Covid-19 Pandemic

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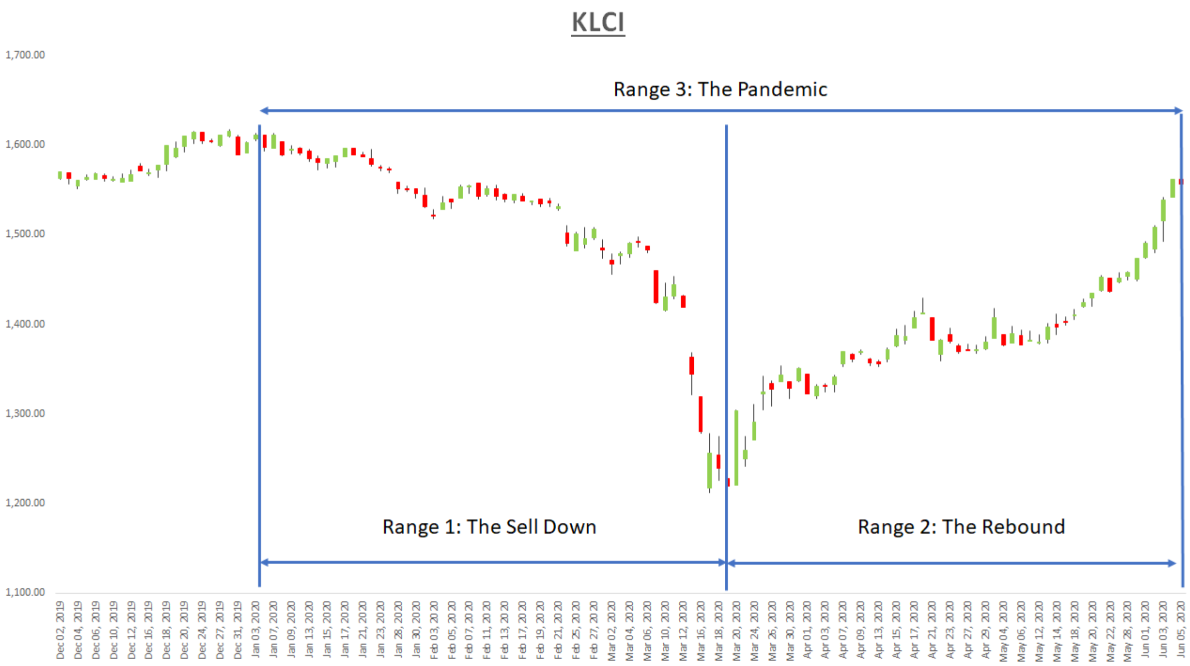
Abstract

The objective of this exercise was to examine the performance of 885 stocks listed on the Bursa Malaysia. The analysis was based on their Price to Earnings (PE), Price to Book (PB), Dividend Yield (DY), and Debt to Equity ratio (DE), during the Covid-19 pandemic from January to early-June 2020. Three different phases or ranges were presented. Range 1, the sell-down period spanned from the beginning of January to mid-March; Range 2, the rebound period spanned from mid-March to early June; and Range 3, the pandemic sell-down and rebound period from January to June. The results showed that neither high nor low ratios consistently outperformed each other in different periods. The only consistent result was investors tend to prefer low DE during the entire period.

Introduction

Growth versus Value investing is a debate between two types of investment approaches that may never end [1],[2],[3]. From a quantitative perspective, growth stocks tend to have high PE, PB and low DY while value stocks are mostly low PE, PB and high DY. DE is a bit unique as some growth stocks are not always funded by debt.

We analysed the performance for about 885 stocks listed on the Bursa Malaysia from January to early-June 2020, and categorized them into various PE, PB, DY and DE range. Three different phases of performance were presented. Range 1, the sell-down period spanned from the beginning of January to mid-March; Range 2, the rebound period spanned from mid-March to early June; and Range 3, the pandemic sell-down and rebound period from January to June. Similar studies were done by various authors around the world where they focussed on their respective regions [4], [5]. This study will only focus on Malaysia with more in-depth details.



Our initial results were quite surprising as we were using the latest June ratios to analyse the data. The results showed that not only all high PE, PB, and low DY stocks outperformed low PE, PB, and high DY stocks with a significant margin, the low PE, PB, and high DY stocks were the worst performers as well.

After further investigation, we found that as PE, PB, and DY are transient in nature, the high volatility of the stock price movement during the pandemic period significantly shifted the stocks from low PE to high PE, and vice versa.

Objectives

- To examine performance of Growth versus Value Investing approaches using set parameters (PE, PB, DY and DE) over the Covid-19 period;
- To determine investors preferences for their portfolios.

Data and Methodology

Using Python, performance of 885 stocks listed on Bursa Malaysia were analysed based on set parameters. The parameters used for examination include PE, PB, DY and DE ratios. To compute the ratios, stock historical prices and financial data were collected from an online portal - Bursa Marketplace.

It was decided to examine the performance of the stocks for the period January to June 2020. This was further segregated into three ranges: Range 1, the sell-down period (January to mid-March); Range 2, the rebound period (mid-March to early June); and Range 3, the consolidated period (January to June).

Key Results

We reanalysed the data by using ratios for three different periods, January, March, and June. The results were as follows:

Low PE vs High PE

Table 1 shows the average performance of stocks based on their PE in January. During the sell down period (January to March), the stock performance ranged between -34.9% to -43.4%. Generally, low PE and negative earnings stocks performed poorer than high PE stocks. In other words, if you buy all stocks with PE ranged between 25 – 50 in January and hold them till June, then your return is -2.3%, the best amongst the rest.

Table 2 shows the average performance of stocks based on their PE in March. It is noted that there were more low PE stocks in March compared to January. Almost half of the higher PEs were traded at lower PEs in March. Generally, your return will be higher if you buy low PE stocks in March.

Table 3 shows the average performance of stocks based on their PE in June. As we mentioned in the beginning of this article, we shall not use June PE to evaluate the stocks' performance because it does not reflect the "real" scenario. Thus, investors could not make any investment decision based on June PE. But Table 3 still serves as a good data point as we can observe that the number of stocks shifted from low PE to high PE as market rebounded.

Stock performance based on PE was inconclusive.

Table 1: January PE – Average Performance Across Range 1, 2, & 3

PE Jan	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative Earnings	-41.9%	83.1%	-2.7%	332
0 - 5	-43.4%	63.3%	-16.5%	26
5 - 10	-40.6%	53.7%	-10.6%	105
10 - 15	-39.8%	56.4%	-10.4%	133
15 - 25	-35.2%	53.4%	-4.1%	135
25 - 50	-34.9%	61.1%	-2.3%	92
50 - 100	-35.8%	59.4%	-5.1%	40
>100	-40.5%	61.5%	-9.8%	22

Table 2: March PE – Average Performance Across Range 1, 2, & 3

PE Mar	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative Earnings	-43.0%	85.7%	-3.7%	315
0 - 5	-50.5%	77.5%	-17.0%	105
5 - 10	-39.5%	50.7%	-12.3%	194
10 - 15	-36.3%	63.3%	-0.4%	107
15 - 25	-30.3%	52.3%	6.1%	86
25 - 50	-22.8%	36.3%	1.1%	44
50 - 100	-19.7%	29.3%	0.3%	21
>100	-34.2%	34.6%	-18.2%	13

Table 3: June PE – Average Performance Across Range 1, 2, & 3

PE Jun	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative Earnings	-43.2%	82.9%	-5.1%	312
0 - 5	-43.2%	66.4%	-11.8%	33
5 - 10	-42.3%	49.7%	-19.1%	113
10 - 15	-39.0%	51.8%	-12.5%	124
15 - 25	-35.2%	43.9%	-10.8%	128
25 - 50	-34.7%	60.2%	-2.9%	102
50 - 100	-30.2%	91.4%	34.0%	46
>100	-34.6%	106.5%	28.6%	27

Low PB vs High PB

Table 4 shows the average performance of stocks based on their PBs in January. Negative Book Values are the worst performers. The average January to March performance for PBs from zero to 10 were close. The difference is only about 1%. The performance for PB higher than 10 were better but the number of stocks in that category was low. If you buy all stocks in the PB range of 10 – 50 and hold it till June, you will have 7.3% return!

Table 5 shows the average performance of stocks based on their PB in March. Generally, low PB stocks performed better than high PB stocks during the rebound period. Like PE, more stocks were traded at lower PBs in March.

Table 6 shows the average performance of stocks based on their PBs in June. The data again shows that the market rebounded, more stocks were trading at higher PB.

Stock performance based on PB was inconclusive.

Table 4: January PB – Average Performance Across Range 1, 2, & 3

PB Jan	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative BV	-44.0%	61.8%	-16.7%	32
0 - 1	-40.0%	58.0%	-12.2%	239
1 - 2	-39.3%	63.9%	-7.2%	249
2 - 5	-39.3%	75.8%	2.0%	200
5 - 10	-40.7%	74.0%	-4.4%	115
10 - 50	-32.6%	74.3%	7.3%	46
50 - 100	-20.1%	17.4%	-8.6%	3
> 100	-22.9%	22.9%	-5.3%	1

Table 5: March PB – Average Performance Across Range 1, 2, & 3

PB Mar	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative BV	-45.7%	61.9%	-21.1%	31
0 - 1	-42.1%	67.2%	-9.9%	653
1 - 2	-32.0%	72.5%	13.0%	118
2 - 5	-32.3%	64.0%	2.3%	58
5 - 10	-11.3%	48.1%	25.5%	11
10 - 50	-13.0%	28.9%	15.9%	11
50 - 100	-13.9%	11.7%	-4.4%	3
> 100	#DIV/0!	#DIV/0!	#DIV/0!	0

Table 6: June PB – Average Performance Across Range 1, 2, & 3

PB Jun	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative BV	-44.4%	59.9%	-20.7%	32
0 - 1	-41.1%	52.7%	-18.0%	543
1 - 2	-39.0%	66.6%	-7.0%	154
2 - 5	-36.3%	103.8%	25.9%	103
5 - 10	-29.9%	182.8%	98.8%	35
10 - 50	-17.9%	61.4%	24.3%	15
50 - 100	-17.5%	16.4%	-4.3%	2
> 100	-30.4%	62.5%	13.0%	1

Low DY vs High DY

Table 7 shows the average performance of stocks based on their DY in January. During the sell down period, the performance across all DY range was quite similar. The low DY category outperformed other categories. If you had invested in high DY stocks in January and held them till June, you will receive a very poor return.

Table 8 shows the average performance of stocks based on their DY in March. Low DY again outperformed high DY during the rebound period.

Table 9 shows the average performance of stocks based on their DY in June. As the market has rebounded, the number of stocks that have high DYs have also decreased.

Stock performance based on DY indicated that investors did not prefer high DY stocks during pandemic period.

Table 7: January DY – Average Performance Across Range 1, 2, & 3

DY Jan	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
No Dividend	-40.7%	74.8%	-4.6%	611
0% - 1%	-32.0%	52.4%	0.5%	24
1% - 2%	-36.0%	54.6%	-0.3%	54
2% - 3%	-35.7%	55.6%	-2.5%	55
3% - 4%	-38.7%	44.8%	-13.5%	51
4% - 5%	-34.0%	33.0%	-15.2%	34
5% - 6%	-39.2%	44.4%	-14.7%	23
> 6%	-39.7%	46.3%	-15.7%	33

Table 8: March DY – Average Performance Across Range 1, 2, & 3

DY Mar	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
No Dividend	-40.8%	73.3%	-5.4%	646
0% - 1%	-16.0%	87.3%	61.4%	11
1% - 2%	-25.7%	34.0%	1.7%	27
2% - 3%	-32.9%	42.6%	-7.7%	27
3% - 4%	-38.2%	64.6%	0.2%	33
4% - 5%	-33.7%	40.9%	-10.6%	29
5% - 6%	-35.4%	38.0%	-13.4%	29
> 6%	-42.3%	49.8%	-16.4%	83

Table 9: June DY – Average Performance Across Range 1, 2, & 3

DY Jun	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
No Dividend	-40.6%	72.7%	-5.1%	675
0% - 1%	-22.2%	86.2%	50.2%	17
1% - 2%	-37.0%	50.9%	-9.0%	54
2% - 3%	-36.8%	41.7%	-12.3%	30
3% - 4%	-37.6%	47.0%	-12.9%	36
4% - 5%	-32.9%	32.1%	-13.1%	29
5% - 6%	-37.2%	38.5%	-16.9%	17
> 6%	-37.9%	40.3%	-15.4%	27

Low DE vs High DE

Tables 10 – 12 are the DE performance based on January, March, and June DE ratios. As the DE is not affected by price, we can see the number of stocks in each category do not change much from January to June. Some small shifts were observed as some of these stocks may have released their quarterly financial results during the pandemic period (January to June).

During the sell down period, low DE generally outperformed high DE stocks. The worst performers were stocks which had DE higher than 5.

During the rebound period, the best performers were negative equity group! But further analysis suggested that there were only six stocks in that category, and some were trading at very low prices. Thus, a small uptick will have a very large percentage improvement.

Stock performance based on DE indicated that investors preferred low DE stocks during pandemic period.

Table 10: January DE – Average Performance Across Range 1, 2, & 3

DE Jan	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative Equity	-46.4%	91.6%	-21.1%	6
Zero Debt	-39.9%	79.9%	-3.8%	78
0 - 0.05	-36.3%	60.5%	-6.5%	153
0.05 - 0.25	-39.2%	71.1%	-1.4%	207
0.25 - 0.5	-39.3%	66.5%	-4.8%	170
0.5 - 1	-40.7%	63.4%	-8.5%	156
1 - 5	-41.2%	58.3%	-9.2%	105
>5	-47.6%	83.9%	-18.9%	10

Table 11: March DE – Average Performance Across Range 1, 2, & 3

DE Mar	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative Equity	-46.4%	91.6%	-21.1%	6
Zero Debt	-39.6%	77.0%	-5.4%	67
0 - 0.05	-37.2%	60.9%	-8.1%	161
0.05 - 0.25	-39.2%	75.9%	1.4%	206
0.25 - 0.5	-38.9%	63.3%	-5.7%	176
0.5 - 1	-40.0%	67.0%	-3.5%	157
1 - 5	-41.5%	52.2%	-17.1%	101
>5	-49.5%	77.7%	-23.0%	11

Table 12: June DE – Average Performance Across Range 1, 2, & 3

DE Jun	Average Jan to Mar Performance	Average Mar to Jun Performance	Average Jan to Jun Performance	Number of Stocks
Negative Equity	-46.4%	91.6%	-21.1%	6
Zero Debt	-39.2%	79.2%	-3.0%	68
0 - 0.05	-37.8%	62.3%	-7.4%	170
0.05 - 0.25	-38.5%	73.7%	0.8%	208
0.25 - 0.5	-39.0%	63.7%	-5.8%	168
0.5 - 1	-40.1%	68.0%	-3.0%	152
1 - 5	-42.6%	53.2%	-19.0%	104
>5	-45.3%	54.4%	-22.8%	9

Key Concluding Points

From the data that we had collected, stock performance based on PE or PB during the pandemic were not conclusive. We are of the opinion that investors are looking for sector/ theme based rather than relative valuation during this period.

For the case of DY, although the data showed that low DY outperformed high DY during the pandemic period, the dividend return was not factored in the analysis. The DY performance could only be seen in the long run.

DE seems to be a good indicator to look at during a crisis period as investors would first “dump” the stocks that have high debt. The “survivability” or sustainability of a company is key during a pandemic.

Limitation(s) & Recommendation(s)

There are more than 900 stocks listed on Main and Ace Market of Bursa Malaysia as of 26 June 2020. However, out of these 900 stocks, we are only able to analyse 885 stocks due to data insufficiency. Some recent quarter reports released have not been fully updated to Bursa Marketplace – the portal where we retrieved our data.

In this research, four financial ratios PE, PB, DY, and DE were used as parameters. Recommendations for future research are to further investigate other financial ratios, such as Return on Earnings (ROE) or factors, such as Market Capital or Sector, that could have an impact on investors’ investment decision. We also recommend future research to conduct a post-Covid study on a similar topic.

Reference:

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