



Buy When Share Price is Way Below Intrinsic Value

For the past one year, most markets have fallen sharply including established market such as the US, which has also seen sharp fall in some of its blue chip stocks. When a share price falls sharply, it becomes an attractive buy provided its fundamentals remain intact. However, when market sentiment continues to weaken, a “cheap” stock can continue to fall. The common question we are often asked by investors is where is the bottom? Honestly, nobody knows as the sentiment is very much affected by the plans of the US Federal Reserve in raising its fed funds rate, which is also influenced by the inflation trend. It is definitely disheartening to see a favourite stock having its share price fallen as if there is no bottom. Our past experience showed that as long as the share price is substantially lower than its intrinsic value, eventually the share price will rebound sharply when the dust settles.

Many blue chips across most exchanges saw their share prices fallen sharply over the past one year.

We shall look at three examples – Nike, the world’s largest supplier of athletic shoes and apparel listed on the New York Stock Exchange; Tencent, the world’s biggest video game company from China famous for its online gaming and WeChat and SP Setia, one the largest property developers in Malaysia.

Despite its strong earnings records, Nike share price has fallen 53% from a high of US\$177 per share to a low of US\$83 since end of 2021 (see *Exhibit 1*). News of an inventory built-up last month caused its share price to dip further. However, a small recovery recently raised its share price by 26% from its low to US\$105.

The fall in Tencent share price is even more drastic. From a high of HK\$750 end of 2021, it plunged 73% to HK\$200 low (see *Exhibit 2*). News of possible relax on China zero-Covid policy saw its share price surged 40% since early Nov.

As for our local property giant, SP Setia, its share price collapsed 73% from last year Oct to Oct 2022 (see *Exhibit 3*). From a high of RM1.45, its share price slide to a low of RM0.42 after the company announced a preference share issue to raise a maximum amount of RM1.166bn to pay off its maturing convertible preference share (RCPS-A). A recent recovery shows its share price jumped 60% to RM0.69.

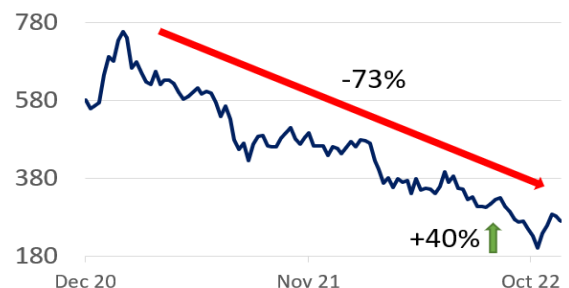
As long as the price of a quality has not hit its bottom, any purchase will still suffer temporary loss. However, investors looking for long-term investment in fundamentally strong stocks will eventually be well rewarded when their share prices rebound from their lows when the dust settles.

Exhibit 1: Nike price chart (2 years)



Source: Bloomberg, PCM, Nov 22

Exhibit 2: Tencent price chart (2 years)



Source: Bloomberg, PCM, Nov 22

Exhibit 3: SP Setia price chart (2 years)



Source: Bloomberg, PCM, Nov 22

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