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Impacts of Fundamental Indicators on Investment Decisions

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Abstract:

This paper conducts a comparative analysis of the risk profiles, profitability, market ratios, of three companies-Apple, Tencent, and Xiaomi-based on their relevant stock fundamental indicators and provides investment recommendations for different types of investors regarding the stocks of these three companies. The performance of the stock fundamental indicators of these three companies exerts a significant impact on the investment decisions of different types of investors, directly determining their investment choices. This paper collects data on risk indicators such as the total market capitalization, beta coefficient, asset-liability ratio, and current ratio of the three companies; it also analyzes the profitability of the three companies from indicators including total asset turnover, profit margin, return on assets, and return on equity. In addition, it compares the market ratios of the three companies from indicators such as price-earnings ratio, price-to-book ratio, and dividend yield. Through the analysis of the stock fundamental indicators of the three companies, combined with the risk and target selection preferences of different types of investors, it is concluded that value investors and institutional investors would choose Apple for investment. Xiaomi is suitable for growth-oriented and theme-oriented investors. Tencent, with a relatively low price-to-book ratio and a high dividend yield, is suitable for dividend investors and long-term investors.

Keywords: Apple; Tencent; Xiaomi; stock; fundamental.

1. Introduction

Selecting appropriate assets as investment targets is crucial to investment success. Choosing appropriate assets can better respond to market changes, and investors can also seize investment opportunities, avoid risks, and obtain good returns [1].

This article takes Apple, Xiaomi, and Tencent as potential analysis objects to analyze whether these companies can become suitable investment targets for investors. Among the three companies selected in this study, Apple and Tencent are among the top ten technology companies in the world, with Apple rank-

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ing first and Tencent ranking fifth. Although Xiaomi has not entered the global top ten technology companies, this emerging Chinese technology company, since its establishment in 2010, has won a large number of users with its cost-effective products and a sound ecosystem, showing great growth potential. Each of the three companies has its own advantages: if one pursues market capitalization and profitability, Tencent has more advantages; if one focuses on technological innovation and product diversity, Apple is more worthy of attention; if one prefers cost performance and the smart home field, Xiaomi is a suitable choice. These three companies can meet the investment preferences of different types of investors.

This paper carries out a comparative analysis of the risk situation, profitability, market ratios, and valuations of Apple, Tencent, and Xiaomi by examining their relevant stock fundamental indicators, and puts forward investment suggestions for different types of investors on the stocks of these three companies. Through the analysis and research of the three companies in this paper, investors can better understand the relevant situation of the companies and make informed investment decisions.

2. Company Profiles

At the beginning of its establishment, Apple was only engaged in the research and sales of computers. However, the company‘s products gradually extended to the design and development of mobile phones, tablets, and electronic products used by consumers in their daily lives, and provided software and online service functions that matched its products, making it a well-known American high-tech company in the world. Apple has strong research and development capabilities, and the company launches new products every year. The company‘s annual product launch event has attracted widespread attention. In China, Apple has a large user base for its products, which are particularly popular among young people. At present, Apple‘s products account for a significant proportion of its total sales in the Chinese market. Apple‘s current market value has exceeded $3 trillion and has been rated by investors as one of the world‘s most growing high-tech companies.

Tencent is a Chinese Internet technology company, whose products cover network communication, mobile payment, online games and other fields. The company has strong technological innovation capabilities, and its network communication product-WeChat, as well as its powerful mobile payment function, are well-known to the world. Currently, the product has over 1 billion users worldwide. Tencent has released a variety of globally popular electronic games and other high-quality digital content, bringing rich interactive entertainment experiences to users worldwide. Tencent also provides a range of enterprise services such as cloud computing, advertising, and fintech to support partners in achieving digital transformation and promoting business development. Tencent was listed on the Hong Kong Stock Exchange in 2004.

Xiaomi is a high-tech company in China, with products covering smartphones, electric vehicles, and household appliances used in daily life. Xiaomi has strong product innovation and research and development capabilities, always taking improving the quality of life as the starting point, bringing users a better user experience, and Xiaomi‘s product prices are also very competitive in the market. Xiaomi‘s smartphones and electric vehicles have taken a leading position in the market, with smartphone sales ranking third globally. Electric vehicles also have a strong brand effect in the Chinese market, and the company relies on its strong product research and development capabilities to continuously launch new products in the market. At present, Xiaomi is well-known worldwide, and its products have numerous users worldwide. Its products have been sold to more than 100 countries and regions worldwide, making it an intelligent manufacturing company with enormous development potential.

3. Indicator Analysis

3.1 Risk

Risk is defined as the uncertainty of outcomes or the likelihood of adverse events, typically manifested as deviations between objectives and actual results [2-3]. In Capital and its manuscripts, risk refers to the dangers that capital may encounter in the process of production and circulation [4]. In this study, risk specifically refers to stock investment risk, which is the possibility that investors may incur book or actual losses because they cannot sell stocks at or above the purchase price due to price fluctuations. Its core definition lies in the failure to achieve expected returns within a predetermined timeframe due to stock price declines, specifically reflected in systematic risks caused by market fluctuations and unsystematic risks arising from enterprise-specific factors.

In the field of investment discourse, there are many factors that affect the market, making investment decisions more complex [5]. This study conducts an analysis of the unsystematic risks of Apple Inc., Xiaomi Corporation, and Tencent Holdings Limited by examining their relevant financial and market indicators.

Four indicators-total market capitalization, beta coefficient, asset-liability ratio, and current ratio-are selected to reflect the risk profiles of Apple, Xiaomi, and Tencent. Market Capitalization refers to the total value of a company or financial product in the market, usually calculated by multiplying the number of shares by the current stock price. It reflects the market‘s overall valuation and expectations for its future development. The beta coefficient is an indicator that reflects volatility and is an important indicator for evaluating systemic risk. It measures the volatility of the selected investment target relative to the entire market. The impact of risk on investment choices can be seen from early work on US stock trading, where Lintner found a significant correlation between average stock returns and estimates of beta coefficient and total (or trait) variance [6]. If the volatility of the investment target is higher than the market average, the beta coefficient value is greater than 1. If the volatility of the investment target is lower than the market average, the beta coefficient value is definitely less than 1. The debt to asset ratio (DEBT) measures a company‘s debt ratio and its ability to repay its debts. It is the ratio of total liabilities to total assets and can clearly reflect the company‘s debt pressure situation. The current ratio reflects a company‘s ability to repay its debts in the short term, evaluating how many current assets a company can convert into cash assets in the short term to repay its short-term debts. It is the ratio of current assets to current liabilities. The Table 1 below lists the specific risk indicators of the three selected companies.

Table 1. Risk

Metric	Apple	Xiaomi	Tencent
Market Cap	3.25T	$61.5B	$0,49T
Beta	0.85(Low Volatility)	1.25(High Volatility)	0.95(Relatively Stable)
Debt(TD/TA)	35%	48%	20%
Current ratio(CA/CL)	1.8X	1.2X	2.1X

As shown in the data of the three companies in the table, in terms of beta coefficient performance, Apple Inc. has the smallest beta coefficient, indicating that its asset volatility is lower than the market average and it is relatively stable. Tencent Holdings Limited has a beta coefficient close to 1, meaning its stock price performance is relatively stable. Xiaomi Corporation has a beta coefficient greater than 1, indicating that its stock has high volatility, accompanied by higher risks and returns. However, high-risk assets may generate excess returns but may also lead to losses [7]. In terms of the asset-liability ratio, Tencent Holdings Limited has the lowest ratio, outperforming Apple Inc., which in turn outperforms Xiaomi Corporation, with Xiaomi Corporation having the highest level of liabilities.

3.2 Profitability

Profitability refers to an enterprise‘s ability to generate profits and achieve capital appreciation through operational activities, usually manifested as the scale and level of income within a certain period. It is a core indicator for measuring the economic efficiency of an enterprise. A company‘s financial performance is a direct outcome, reflecting the efficiency with which the company manages various economic resources in terms of operations, investments, and financial matters [8].

This article selects five indicators - total asset turnover, profit margin, return on assets, return on equity, and current net profit - to analyze the profitability of Apple, Xiaomi, and Tencent. The total asset turnover rate is an indicator of a company‘s asset utilization efficiency, which is the ratio between the total asset size and operating income. The profit margin mainly reflects the indicator of a company‘s profitability, which is a ratio of the profits generated by the company‘s production and operation over a certain period of time to the total assets. Return on Assets (ROA) is a key indicator reflecting a company‘s operational efficiency and overall profitability, used to measure how much profit a unit of assets invested by the company can generate. The return on equity (ROE) mainly reflects the indicator of how much profit can be generated by the capital invested by all shareholders, and measures the key indicator of how much profit can be generated by shareholder investment. The current net profit reflects the after tax net profit created by a company through production and operation during a certain period of time. It reflects the financial performance of a company, which is a major issue in the internal and external environment of the entity [9]. Net profit reflects the operating results created by a company through production and operation over a certain period of time, after deducting various costs. It is a key indicator for measuring a company‘s operational efficiency and profitability. The Table 2 below lists the specific profitability indicators of the three selected companies.

Table 2. Profitability

Metric	Apple	Xiaomi	Tencent
Total Asset turnover	0.70X	1.30X	0.45X
Profit Margin	24.80%	5.20%	22.50%

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ROA	17%	7%	18%
ROE	145%	12.50%	25.60%
current net profit	$105.2B	¥18.6B	HK$156.8B

As indicated by the profitability data of the three companies in the table, in terms of ROA (Return on Assets) performance, Tencent Holdings Limited has an ROA of 18%, which means its asset utilization efficiency and profitability are stronger than those of Apple Inc. Apple Inc. has an ROA of 17%, slightly lower than Tencent but better than Xiaomi Corporation.

In terms of ROE (Return on Equity), Apple Inc. has the highest ROE, outperforming Tencent Holdings Limited, which indicates that Apple has strong profitability, high capital utilization efficiency, and high returns for shareholders. Tencent Holdings Limited performs better than Xiaomi Corporation in terms of ROE.

3.3 Market Ratio

Market ratio refers to indicators used to measure the relationships between different variables in the stock market, reflecting market conditions, enterprise value, or industry characteristics through specific ratio calculations.

Price to earnings ratio is a ratio indicator that is the ratio between a company's stock price and the earnings created per share. It is primarily provided to investors as a measure of whether the company's stock has investment value. Price to book ratio (P/B) is a ratio of a company's stock price to its net assets. The lower the P/B ratio, the closer the company's stock price is to its net assets, often indicating that the company's stock has investment value. Price to earnings ratio (PEG) is a ratio of a company's after tax profits to the price of its stock, and the level of PEG represents the length of time it takes to recoup the principal investment. The price to earnings ratio indicator has limitations and should be analyzed in conjunction with the company's future earnings growth rate, which compensates for the deficiency of ignoring growth potential in the price to earnings ratio. Dividend Yield refers to the ratio of the total cash dividends paid by a listed company to its shareholders in the most recent year to the company's latest total market capitalization. It is also equal to the ratio of the total dividends of a stock in the most recent year to its latest stock price. Dividend yield is one of the important criteria for measuring the investment value of an enterprise. The indicators reflecting the market ratios of the three companies are presented in the Table 3 below.

Table 3. Market Ratio

Metric	Apple	Xiaomi	Tencent
P/E Ratio	28.5X	18.2X	22.8X
P/B Ratio	35.2X	2.5X	3.8X
Dividend	0.55%	0%	0.35%
PEG Ratio	1.25 (Steady growth)	0.85 (High growth)	1.10(Steady growth)
DCF	$190	¥18.50	HK$450

An analysis of the above market ratio indicators of the three companies shows that Apple Inc. has the highest P/E ratio, reflecting investors' high growth expectations for the company. However, the investment risk borne by investors is also higher than that of the other two companies. Nevertheless, as a technology enterprise, a P/E ratio of 28.5 times is still within a reasonable range in the industry. Xiaomi Corporation has the lowest P/E ratio, indicating that its stock price may be undervalued, but attention should also be paid to the company's profit level.

In terms of the P/B ratio, the P/B ratios of Xiaomi Corporation and Tencent Holdings Limited are significantly lower than that of Apple Inc., indicating that the investment value of these two companies is higher than that of Apple Inc.

From the perspective of dividend yield, Apple Inc. has the highest dividend yield among the three companies, which means that investors can obtain higher investment dividends by investing in Apple's stocks.

4. Asset Selection Analysis

There are many types of investors in the stock market, including individual investors, institutional investors, value investors, trend investors, growth investors, thematic investors, long-term investors, and dividend investors, among others. This study analyzes the investment results of the three selected companies for value investors, institutional investors, growth investors, dividend investors, thematic investors, and long-term investors.

Value investors often make investment decisions by analyzing the company's current fundamentals and predict-

ing its future development trends, in order to determine whether the company has investment opportunities, ignoring short-term market fluctuations. They pay attention to fundamental analysis of the company, conduct long-term investments by evaluating intrinsic value, and prefer stocks with low P/B ratios and low P/E ratios.
The most typical characteristics of institutional investors are strong investment research ability and strong financial strength. They exist in the form of legal entities, investing with their own funds or raising funds through products. In all investor assessments, institutional investors are considered professional and qualified investors. Cemetery funds, some private equity funds, and social security funds are all institutional investors.
Growth investors refer to investors who focus on long-term investment, pay attention to a company‘s growth potential and development prospects, and are willing to bear short-term fluctuations and risks in pursuit of long-term capital appreciation.
Dividend investors refer to investors who hold shares of listed companies and enjoy the company‘s dividend rights. The basic concept of thematic investors is to take theme-driven factors such as macroeconomics, policy orientation, and social trends as the core, and conduct cross-industry asset allocation by exploring investment targets with common driving factors.
Long-term investors refer to market participants characterized by continuously holding assets, whose investment decisions are based on judgments about the long-term value of the targets.
Different investors vary significantly in their focus when selecting investment varieties and their application of indicator results. An investor‘s decision on whether to invest depends on their profit expectations, asset costs, the availability of investment financing, and how to finance [10]. Based on the risk analysis, profitability analysis, and market ratio indicator analysis of Apple, Tencent, and Xiaomi, this study presents the investment results for value investors, institutional investors, growth investors, dividend investors, thematic investors, and long-term investors in the Table 4 below.

Table 4. Investment Recommendations

Asset	Selection
Stock 1: Apple	Suitable for value investors
	Suitable for institutional investors
Stock 2: Xiaomi	Suitable for growth - oriented investors
	Suitable for theme investors
Stock 3: Tencent	Suitable for dividend investors
	Suitable for institutional/long - term investors

5. Conclusion

This study analyzed the risk indicators (total market capitalization, beta coefficient, asset-liability ratio, and current ratio), profitability metrics (total asset turnover, profit margin, return on assets, and return on equity), and market ratios (price-earnings ratio, price-to-book ratio, and dividend yield) of Apple, Tencent, and Xiaomi. Integrating these findings with the risk preferences and target orientations of different investor types, the following conclusions are drawn: Apple is suitable for value investors and institutional investors; Xiaomi aligns with growth-oriented and theme-focused investors; According to the preferences of dividend investors and long-term investors, choose investment products with low price to book ratio and high dividend yield, and Tencent meets the choices of these two types of investors in these two indicators.
The limitation of this article is that it only analyzed the risk status, profitability, and market ratios of three companies based on their publicly available market data, without taking into account macroeconomic conditions, market changes, and other factors. Therefore, the final investment decision has certain limitations.

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