



PepsiCo, Inc (PEP)

Suitable

Updated October 2nd, 2018 by Nate Parsh

Key Metrics

Current Price: \$109	5 Year CAGR Estimate: 7.2%	Volatility Percentile: XX.X%
Fair Value Price: \$107	5 Year Growth Estimate: 4.0%	Momentum Percentile: XX.X%
% Fair Value: 102%	5 Year Valuation Multiple Estimate: 0.0%	Total Return Percentile: XX.X%
Dividend Yield: 3.2%	5 Year Price Target \$130	Valuation Percentile: XX.X%

Overview & Current Events

PepsiCo is a global food and beverage company that had more than \$63 billion in sales in 2017. The company's products include Pepsi, Mountain Dew, Frito-Lay chips, Gatorade, Tropicana orange juice and Quaker foods. The company has 23 \$1 billion brands in its portfolio. Pepsi was founded in 1898 and currently employs 264,000 people around the world.

Pepsi released third quarter earnings on October 2nd. The company earned \$1.59 in the quarter, \$0.02 above estimates. This was a 7.4% improvement from the same time frame in 2017. Pepsi has now topped earnings estimates in 18 out of the last 19 quarters. Revenue grew 1.5% year over year to \$16.5 billion, beating expectations by \$130 million.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$3.21	\$3.77	\$3.91	\$3.98	\$3.92	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$6.87
DPS	\$1.60	\$1.75	\$1.89	\$2.03	\$2.13	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$4.16

Pepsi has grown earnings at a rate of 4.2% per year from 2010-2017. Pepsi's growth over this time period came from sales growth (~1.5%), margin improvements (~1%), and share repurchases (~1.5%).

Pepsi produced 4.9% organic growth during the third quarter. Currency rates had a negative 2% impact on sales results. North American Beverage, or NAB, saw sales increase 2% to \$5.46 billion. Sales for NAB have trended from a 6% decline in the fourth quarter of last year to flat last quarter to growth in this quarter. This is important as NAB is the largest contributor to sales. Frito-Lay North America had revenue growth of 3% to \$3.9 billion. Volumes for all divisions and all geographies were improved on a year over year basis. International markets continue to be an area of strength for Pepsi. Sales for Latin America (up 10% organically), Europe, Sub-Saharan Africa (up 8%) and Asia, Middle East and North Africa (up 9%) all showed solid growth rates.

Pepsi lowered its EPS guidance for the year to \$5.65 from \$5.70 previously due to a 1% headwind from foreign exchange. The company did reiterate cash from operating activities (~\$9 billion) and free cash flow (~\$6 billion) guidance for 2018. We are maintaining our expected 4% annual expected earnings growth from our previous updates. If NAB can continue to show positive growth, we would likely lift this percentage higher. If Pepsi is able to deliver on its EPS updated forecast, then shareholders are looking at 8% earnings growth from 2017.

Pepsi has raised its dividend for the past 46 years and the average increase over the past 10 years is 8.9%. The company announced on 2/13/2018 that the dividend would be raised 15.2% for the June payment. Pepsi has historically raised the dividend on the third payment of the year (the company pays a dividend in January, March, June and September). Pepsi shareholders received \$3.47 per share during 2018. We expect Pepsi's dividend payout ratio to remain at 60% out to 2023, which implies \$4.16 in DPS by that time.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	20.5	14.7	16.5	16.4	17.4	18.4	20.8	20.7	21.4	21.7	19.3	18.9
Avg. Yld.	2.4%	3.2%	2.9%	3.1%	3.1%	2.8%	2.8%	2.9%	2.9%	2.7%	3.2%	3.2%

Disclosure: This analyst has a long position in the security discussed in this research report.

Pepsi's stock has decreased \$4, or 3.5%, since our July 10th update. Based off expected EPS for the year, the stock has a P/E of 19.3, slightly lower previously. This is slightly above the decade long average P/E of 18.9. If shares were to revert to their average P/E then shares would experience a multiple contraction less than a half of one percent.

Pepsi's current dividend yield is above the S&P 500 and 10-year Treasury Bond. The company also has one of the longest dividend growth streaks in the market and just gave investors an above average dividend increase for the most recent payment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	63.6%	58.1%	45.9%	47.9%	45.8%	45.4%	50.3%	49.3%	47.1%	43.5%	43%	47.1%
Debt/A	66.4%	57.8%	68.9%	71.8%	70.1%	68.7%	75.3%	82.7%	84.7%	86.2%	87%	79.5%
Int. Cov.	25.6	25.7	10.9	12.1	11.4	12	11.7	9.2	8	11.9	11.6	10.6
Payout	49.8%	46.4%	48.3%	51%	54.3%	52.5%	59.3%	59.9%	61%	59.7%	61.4%	60.6%
Std. Dev.	32.1%	22.8%	15%	17.3%	10.6%	13.5%	12.9%	15.2%	13.5%	9.8%	11.1%	16.3%

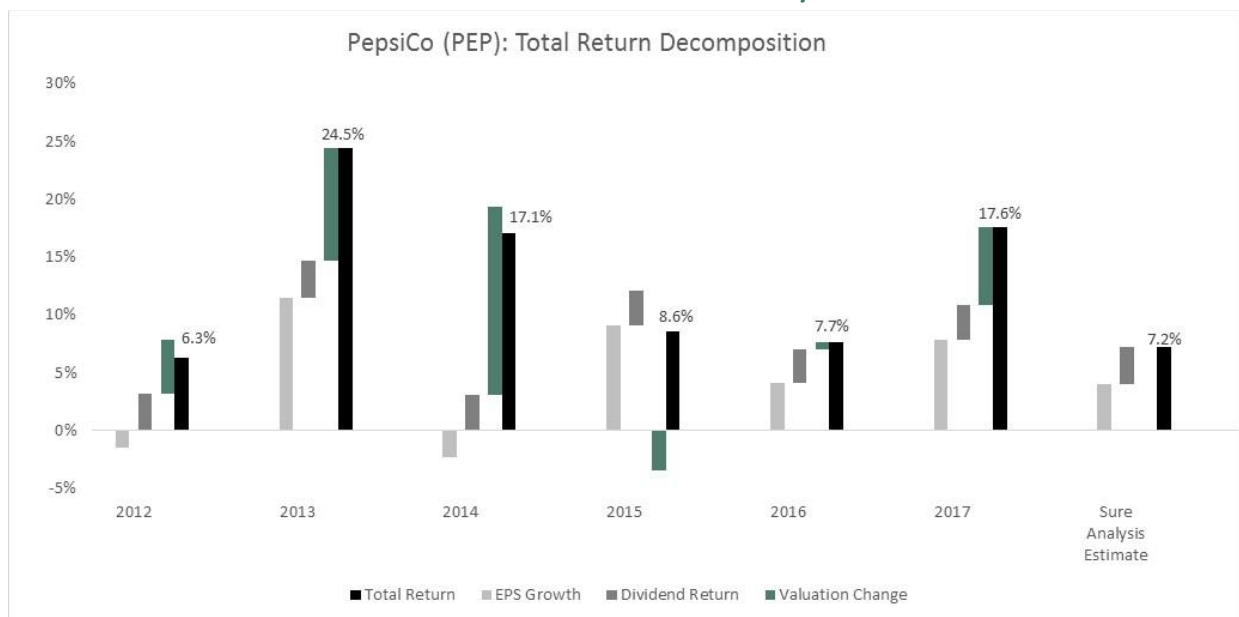
Pepsi is a relatively recession proof company. EPS grew during the last recession and it offers a very generous dividend yield. While debt has climbed higher in recent years, the company is expecting \$6 billion in cash flow in 2018.

While known for their carbonated beverages, Pepsi's food and snacks make up approximately 52% of sales. Pepsi's line of "Better for You" offerings are designed to meet consumers' desire for healthier food and drink options. These items had double digit growth during 2017. Products with less than 70 calories from added sugar make up ~45% of sales.

Final Thoughts & Recommendation

Shares of Pepsi have decreased \$4 since our most recent update. We now forecast that Pepsi's stock can offer annual returns of 7% through 2023. This is based off of growth (4%), dividends (3.2%) and a negligible multiple contraction (0.04%). We continue to believe that Pepsi's long dividend history, stability, and general safety make it a reasonable hold for risk averse investors. The company lowered its guidance for EPS by a nickel and we have lowered our 2023 price target by \$1 to \$130 to reflect this. From the perspective of Retirement Suitability, Pepsi's quantitative characteristics earn it a C rating. The company is *extremely* close to a B rating. Pepsi's sub-4% yield prevents it from reaching A-rated territory.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has a long position in the security discussed in this research report.