



PepsiCo, Inc (PEP)

Updated July 9th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$132	5 Year CAGR Estimate:	3.7%	Volatility Percentile:	9.5%
Fair Value Price:	\$104	5 Year Growth Estimate:	5.5%	Momentum Percentile:	77.6%
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.7%	Growth Percentile:	49.4%
Dividend Yield:	2.9%	5 Year Price Target	\$136	Valuation Percentile:	20.1%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	18.2%

Overview & Current Events

PepsiCo is a global food and beverage company that generates \$66 billion in annual sales. 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. PepsiCo was founded in 1898 and currently employs 264,000 people around the world. The company has a current market capitalization of \$185 billion.

PepsiCo reported financial results for the second quarter on 7/9/2019. The company earned \$1.54 per share, \$0.03 above estimates, but a 4.3% decline year-over-year. Revenue increased 2.2% to \$16.5 billion, in-line with what analysts had expected. Foreign exchange was a 3% headwind to revenue and a 2% impairment to earnings-per-share during the quarter.

PepsiCo produced organic growth of 4.5% in the second quarter. North America Beverage, the largest contributor to sales, grew 2.5%. Frito-Lay North America, the second largest segment of the company, had growth of 4.5%. Quaker Foods, which had posted declining sales for several quarters, saw a 2.5% uptick. Every segment of PepsiCo and almost every geographic region the company operates saw sales increases during the quarter. Latin America improved 2%. Asia, Middle East and North Africa continues to be a weak point for PepsiCo, with sales dropping 1%. Total core gross margins increased 70 bps to 55.5%.

PepsiCo reaffirmed its guidance for 2019. The company continues to see earnings-per-share of \$5.50 for 2019, with 4% organic revenue growth. The effective tax rate is likely to expand to 21% for 2019 vs. 18.8% for 2018. PepsiCo is also implementing a restructuring that will result in a \$2.5 billion in pretax charges through 2023. The company expects \$800 million of these charges will occur during the current year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.77	\$3.91	\$3.98	\$3.92	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.50	\$7.19
DPS	\$1.75	\$1.89	\$2.03	\$2.13	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.77	\$4.31
Shares	1565	1581	1564	1544	1529	1488	1448	1428	1420	1410	1400	1365

PepsiCo grew earnings at a rate of 4.2% per year from 2010-2017. Due to company's organic growth guidance, we have increased our expected earnings-per-share growth to 5.5% from 4% through 2024. PepsiCo's growth over this time period will accrue from organic sales growth (4%) and share repurchases (1.5%).

PepsiCo announced a 3% dividend increase, beginning with the payment made in June. This raise is well below the company's 10-year average increase of 8% and last year's increase of 15.2%. This is likely due to impact on profitability discussed above. Shareholders should receive \$3.77 per share in dividends in 2019. PepsiCo has increased its dividend for 47 consecutive years now and it is likely that the company will continue to do so for years to come. We expect PepsiCo's dividend payout ratio to remain at 60% out to 2024, which implies \$4.31 in DPS by that time.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.7	16.5	16.4	17.4	18.4	20.8	20.7	21.4	21.7	19.3	24.0	18.9
Avg. Yld.	3.2%	2.9%	3.1%	3.1%	2.8%	2.8%	2.9%	2.9%	2.7%	3.2%	2.9%	3.2%

PepsiCo's stock has increased \$5, or 3.9%, since our 4/17/2019 report. Based off expected earnings for 2019, the stock has a price-to-earnings ratio, or P/E, of 24. We maintain our 2024 target P/E of 18.9, which is the average valuation over the last 10 years. Annual returns would be reduced by 4.7% per year if shares were to revert to their average P/E by 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	46%	48%	51%	54%	53%	59%	60%	61%	60%	61%	69%	60%

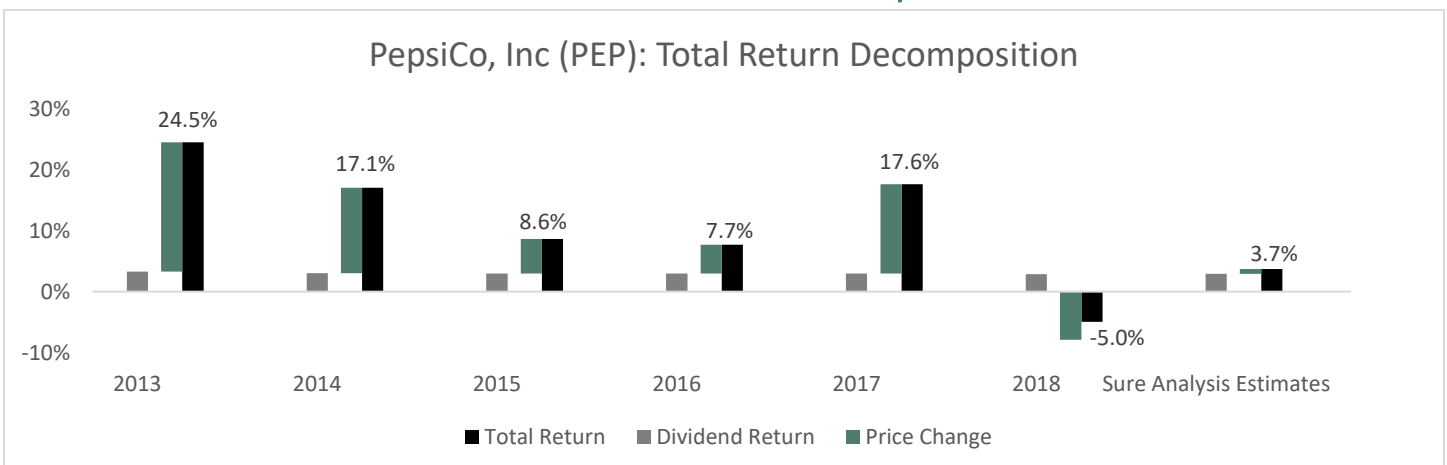
PepsiCo's is a relatively recession proof company. Earnings grew during the last recession and it offers a very generous dividend yield. The company is expecting \$9 billion in cash flow from operations in 2019.

PepsiCo has several key competitive advantages that set it apart from the competition. The company is one of the largest in its sector, which gives it pricing power with vendors. While known for their carbonated beverages, Pepsi's food and snacks make up approximately 52% of sales. PepsiCo has also adjusted to changing consumer habits. The company's line of "Better for You" offerings are designed to meet consumers' desire for healthier food and drink options. Products with less than 70 calories from added sugar make up ~45% of sales.

Final Thoughts & Recommendation

Following second quarter results, we estimate that PepsiCo will offer a total annual return of 3.7% through 2024, down from our previous estimate of 4.6%. Total annual returns will consist of earnings growth (5.5%), dividends (2.9%) and multiple reversion (-4.7%). PepsiCo produced another solid quarter of organic growth. While foreign exchange remains a headwind, every division and nearly every geography showed growth in Q1. The company is undergoing structural changes, which likely explains the lower than usual dividend increase. With that said, the stock's valuation is becoming stretched. Shares of PepsiCo receive a hold rating from Sure Dividend due to low projected total returns. At the same time, we are not advocating that investors take profits in the stock. Organic growth and the company's dividend history remain intact, thus avoiding a sell rating. We reiterate our 2024 price target of \$136 for PepsiCo.

Total Return Breakdown by Year



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



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	43232	57838	66504	65492	66415	66683	63056	62799	63525	64661
Gross Profit	23133	31263	34911	34201	35172	35445	34325	34577	34729	35280
Gross Margin	53.5%	54.1%	52.5%	52.2%	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%
SG&A Exp.	15026	22814	25145	24970	25357	25772	24613	24773	24453	25170
D&A Exp.	N/A	2327	2737	2689	2663	2625	2416	2368	2369	2399
Operating Profit	8044	8332	9633	9112	9705	9581	9712	9804	10276	10110
Op. Margin	18.6%	14.4%	14.5%	13.9%	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%
Net Profit	5946	6320	6443	6178	6740	6513	5452	6329	4857	12515
Net Margin	13.8%	10.9%	9.7%	9.4%	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%
Free Cash Flow	4668	5195	5605	5765	6893	7647	8106	7623	7061	6133
Income Tax	2100	1894	2372	2090	2104	2199	1941	2174	4694	-3370

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	39848	68153	72882	74638	77478	70509	69667	73490	79804	77648
Cash & Equivalents	3943	5943	4067	6297	9375	6134	9096	9158	10610	8721
Acc. Receivable	4624	6323	6036	6215	6178	5817	5497	5709	5956	6079
Inventories	2618	3372	3827	3581	3409	3143	2720	2723	2947	3128
Goodwill & Int.	9157	28469	33245	33496	32652	29053	27258	27863	28582	30633
Total Liabilities	22406	46677	51983	52239	53089	52961	57637	62291	68823	63046
Accounts Payable	8127	3865	4083	4451	4874	5127	5546	6158	6727	7213
Long-Term Debt	7864	24897	26773	28359	29639	28897	33284	36945	39281	32321
Total Equity	16763	21123	20547	22253	24238	17397	11882	11054	10848	14518
D/E Ratio	0.47	1.18	1.30	1.27	1.22	1.66	2.79	3.33	3.61	2.23

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	15.7%	11.7%	9.1%	8.4%	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%
Return on Equity	41.3%	33.4%	30.9%	28.9%	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%
ROIC	25.8%	17.6%	13.7%	12.6%	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%
Shares Out.	1565	1581	1564	1544	1529	1488	1448	1428	1420	1410
Revenue/Share	27.41	35.84	41.64	41.58	42.57	43.67	42.46	43.25	44.18	45.38
FCF/Share	2.96	3.22	3.51	3.66	4.42	5.01	5.46	5.25	4.91	4.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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