



PepsiCo, Inc (PEP)

Updated October 1st, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$139	5 Year CAGR Estimate:	2.8%	Market Cap:	\$192 billion
Fair Value Price:	\$104	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	12/4/2020 ¹
% Fair Value:	134%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	1/7/2020 ²
Dividend Yield:	2.9%	5 Year Price Target	\$136	Years Of Dividend Growth:	48
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	7.1%

Overview & Current Events

PepsiCo is a global food and beverage company that generates \$68 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. PepsiCo completed its \$3.85 billion purchase of Rockstar Energy in late April 2020.

On 10/1/2020, PepsiCo announced earnings results for the third quarter. Revenue increased 5.2% to \$18.1 billion, coming in \$850 million ahead of estimates. Adjusted earnings-per-share improved \$0.10, or 6.4%, to \$1.66, which was \$0.17 higher than expected. Organic revenue growth was 4.2% for the quarter. Currency exchange was a 2% headwind to revenue results and a 3% impairment to EPS.

Nearly every segment of the company contributed to growth. Snack and foods remained strong, with organic revenues climbing 6% and volumes up 3%. Organic growth for beverage was 3% and volumes improved 1%. PepsiCo Beverages North America was up 7% on a reported basis. Carbonated beverages saw an increase in demand as did Lipton and Starbucks product offerings. Frito-Lay North America's revenue climbed 6% with volumes growing 2.5%. This segment continues to take market share, especially for Tostitos, Cheetos and Doritos. Management noted that gas and convenience sales had improved from the second quarter and e-commerce continued to gain traction. A 4% gain in volumes led to a 6% improvement in revenues for Quaker Foods North America due to higher household penetration rates. Europe improved 3%, due in large part to an 11% increase in beverage volumes. U.K. and France continue to be sources of strength. Africa/Middle East/South Asia had revenue growth of 31%, mostly due to an acquisition. Asia Pacific/Australia/New Zealand/China experienced a 15% gain in revenue, partially due to an acquisition. Volumes for food and snack and beverages were up 7% and 6%, respectively. China and Australia were the top performers. Latin America was the lone segment to decline, with sales falling 13%, but this was mostly due to currency exchange.

PepsiCo reinstated guidance for 2020 and now expects organic revenue growth of 4% and core earnings-per-share of \$5.50, which is down slightly from 2019. PepsiCo also expects to return \$7.5 billion of capital to shareholders, including \$5.5 billion of dividends.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.91	\$3.98	\$3.92	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.53	\$5.50	\$7.19
DPS	\$1.89	\$2.03	\$2.13	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.09	\$5.35
Shares³	1581	1564	1544	1529	1488	1448	1428	1420	1410	1400	1390	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 2025. PepsiCo's growth over this time period will accrue from organic sales growth (4%) and share repurchases (1.5%).

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

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



PepsiCo, Inc (PEP)

Updated October 1st, 2020 by Nathan Parsh

PepsiCo announced a 7% dividend increase, beginning with the payment made in June. This raise is in-line with the average raise over the past decade. PepsiCo has now increased its dividend for 48 consecutive years now and it is likely that the company will continue to do so for years to come.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.5	16.4	17.4	18.4	20.8	20.7	21.4	21.7	19.3	24.7	25.3	18.9
Avg. Yld.	2.9%	3.1%	3.1%	2.8%	2.8%	2.9%	2.9%	2.7%	3.2%	2.8%	2.9%	3.9%

PepsiCo's stock has increased \$4, or 3%, since our 7/13/2020 report. Based off revised earnings guidance for 2020, the stock has a P/E, of 25.3. We maintain our 2025 target P/E of 18.9, which is the average valuation over the last 10 years. Annual returns would be reduced by 5.6% per year if shares were to revert to the average P/E by 2025.

Safety, Quality, Competitive Advantage, & Recession Resiliency

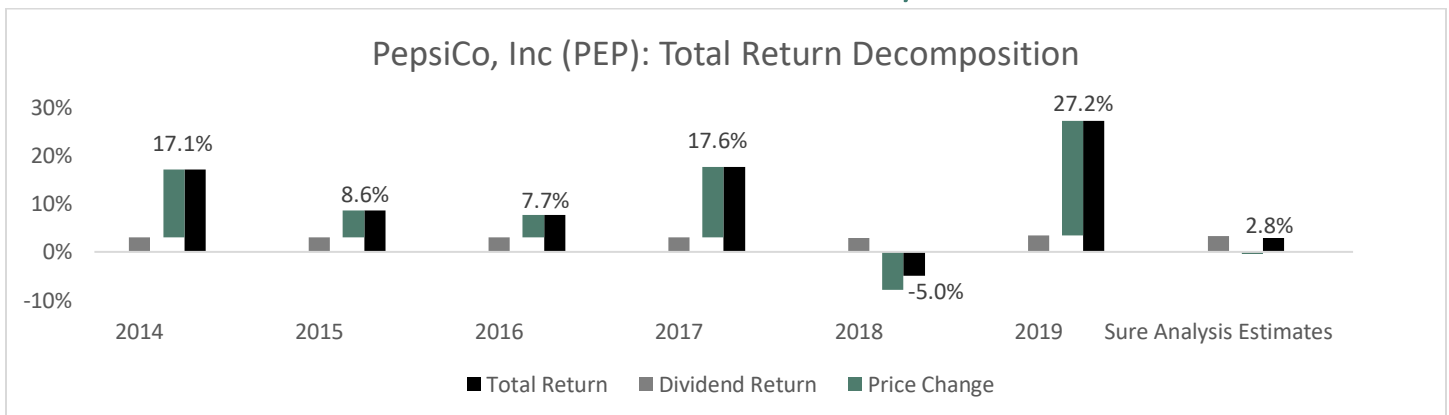
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	48%	51%	54%	53%	59%	60%	61%	60%	61%	69%	74%	74%

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 \$6 billion in cash flow from operations in 2020. 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 slightly more than half 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 earnings results, PepsiCo is projected to produce an annual return of 2.8% through 2025, down slightly from our previous forecast of 2.9%. Following a challenging second quarter where revenue and earnings both declined, PepsiCo returned to growth in the most recent quarter. This was a remarkable turnaround in a short period of time, a testament to the company's business. Most regions showed growth and volumes were positive for both beverages and snacks and foods. We maintain our hold rating due to projected returns, but note that income investor might be drawn to PepsiCo's dividend growth history and the current yield. We have raised our 2025 price target \$4 to \$136 due to EPS guidance for the year.

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.



PepsiCo, Inc (PEP)

Updated October 1st, 2020 by Nathan Parsh

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	57,838	66,504	65,492	66,415	66,683	63,056	62,799	63,525	64,661	67,161
Gross Profit	31,263	34,911	34,201	35,172	35,445	34,325	34,577	34,729	35,280	37,029
Gross Margin	54.1%	52.5%	52.2%	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%
SG&A Exp.	22,814	25,145	24,970	25,357	25,772	24,613	24,773	24,453	25,170	26,738
D&A Exp.	2,327	2,737	2,689	2,663	2,625	2,416	2,368	2,369	2,399	2,432
Operating Profit	8,332	9,633	9,112	9,705	9,581	9,712	9,804	10,276	10,110	10,291
Op. Margin	14.4%	14.5%	13.9%	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%
Net Profit	6,320	6,443	6,178	6,740	6,513	5,452	6,329	4,857	12,515	7,314
Net Margin	10.9%	9.7%	9.4%	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%
Free Cash Flow	5,195	5,605	5,765	6,893	7,647	8,106	7,623	7,061	6,133	5,417
Income Tax	1,894	2,372	2,090	2,104	2,199	1,941	2,174	4,694	(3,370)	1,959

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	68,153	72,882	74,638	77,478	70,509	69,667	73,490	79,804	77,648	78,547
Cash & Equivalents	5,943	4,067	6,297	9,375	6,134	9,096	9,158	10,610	8,721	5,509
Acc. Receivable	6,323	6,036	6,215	6,178	5,817	5,497	5,709	5,956	6,079	6,447
Inventories	3,372	3,827	3,581	3,409	3,143	2,720	2,723	2,947	3,128	3,338
Goodwill & Int.	28,469	33,245	33,496	32,652	29,053	27,258	27,863	28,582	30,633	31,544
Total Liabilities	46,677	51,983	52,239	53,089	52,961	57,637	62,291	68,823	63,046	63,679
Accounts Payable	3,865	4,083	4,451	4,874	5,127	5,546	6,158	6,727	7,213	8,013
Long-Term Debt	24,897	26,773	28,359	29,639	28,897	33,284	36,945	39,281	32,321	32,068
Total Equity	21,123	20,547	22,253	24,238	17,397	11,882	11,054	10,848	14,518	14,786
D/E Ratio	1.18	1.30	1.27	1.22	1.66	2.79	3.33	3.61	2.23	2.17

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.7%	9.1%	8.4%	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%
Return on Equity	33.4%	30.9%	28.9%	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%
ROIC	17.6%	13.7%	12.6%	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%
Shares Out.	1581	1564	1544	1529	1488	1448	1428	1420	1410	1400
Revenue/Share	35.84	41.64	41.58	42.57	43.67	42.46	43.25	44.18	45.38	47.73
FCF/Share	3.22	3.51	3.66	4.42	5.01	5.46	5.25	4.91	4.30	3.85

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.