



# PepsiCo, Inc (PEP)

Updated April 18<sup>th</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$144	<b>5 Year CAGR Estimate:</b>	4.3%	<b>Market Cap:</b>	\$197 billion
<b>Fair Value Price:</b>	\$116	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	6/4/2021
<b>% Fair Value:</b>	124%	<b>5 Year Valuation Multiple Estimate:</b>	-4.2%	<b>Dividend Payment Date:</b>	6/30/2021
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$152	<b>Years Of Dividend Growth:</b>	49
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	5.0%

## Overview & Current Events

PepsiCo is a global food and beverage company that generates \$75 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 291,000 people around the world. PepsiCo completed its \$3.85 billion purchase of Rockstar Energy in late April 2020.

PepsiCo announced earnings results for the first quarter on 4/15/2021. Revenue improved 6.8% to \$14.8 billion, topping expectations by \$276 million. Adjusted earnings-per-share of \$1.21 was a 13% increase from the prior year and \$0.09 above estimates.

Organic sales rose 2.4% compared to estimates of 1.7%. Unit volumes for food and snack increased 4% while beverage was flat. Revenue for PepsiCo Beverages North America improved 2% though volumes were down 3%. The company gained market share in carbonated beverages, teas, juices and sparkling water. Frito-Lay North America's revenue grew 3% even as volumes were lower by 1%. New products, such as Dorito's 3D Crunch, and top brands, such as Tostitos, saw higher demand. Quaker Foods North America revenue was up 1% with a 4% decrease in volumes following a very strong 2020. The company expects this business to moderate compared to last year as consumers are able to eat more meals out. Revenues in Europe were flat, but this region had 4% volume growth in food and snack while beverages improved 7%. PepsiCo had market share gains in the U.K. Revenue for the Africa/Middle East/South Asia was down 1% primarily due to divestitures, but food and snack volumes were higher by 4% with Beverages growing 1%. The Asia Pacific/Australia/New Zealand/China region was the best performer, growing 18% due to mid-double-digit gains in both food and snack and beverage. China was higher by a double-digit percentage. PepsiCo repurchased \$106 million of shares during the quarter and does not plan to retire additional shares this year.

For 2021, PepsiCo confirmed its prior forecast of organic revenue up by a mid-single-digit percentage with adjusted EPS improving at a high single-digit rate. For now, we are maintaining our expected earnings growth rate.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$3.98	\$3.92	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.53	\$5.52	<b>\$5.82</b>	<b>\$7.61</b>
<b>DPS</b>	\$2.03	\$2.13	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.02	<b>\$4.30</b>	<b>\$5.62</b>
<b>Shares<sup>1</sup></b>	1564	1544	1529	1488	1448	1428	1420	1410	1400	1388	<b>1388</b>	<b>1365</b>

PepsiCo grew earnings at a rate of 3.7% per year from 2011-2020. Due to company's organic growth guidance, we have reaffirm our expected earnings-per-share growth of 5.5% through 2026. PepsiCo's growth over this time period will accrue from organic sales growth (4%) and share repurchases (1.5%).

On 2/11/2021, PepsiCo announced a 5% dividend increase, beginning with the payment made in June. This raise is slightly below the average raise over the past decade. PepsiCo has now increased its dividend for 49 consecutive years now and it is likely that the company will continue to do so for years to come.

<sup>1</sup> Share count in millions

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



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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.4	17.4	18.4	20.8	20.7	21.4	21.6	19.1	23.1	24.7	<b>24.7</b>	<b>20.0</b>
Avg. Yld.	3.1%	3.1%	2.8%	2.8%	2.9%	2.9%	2.8%	3.1%	2.9%	2.9%	<b>3.0%</b>	<b>3.7%</b>

PepsiCo's stock has increased \$9, or 6.7%, since our 2/12/2021 report. Based off of earnings guidance for 2021, the stock has a P/E, of 24.7. We are raising our 2026 target P/E to 20 from 18.9 to match the stock's average valuation since 2011. Reverting to our new target would reduce annual returns by 4.2% over the next five years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

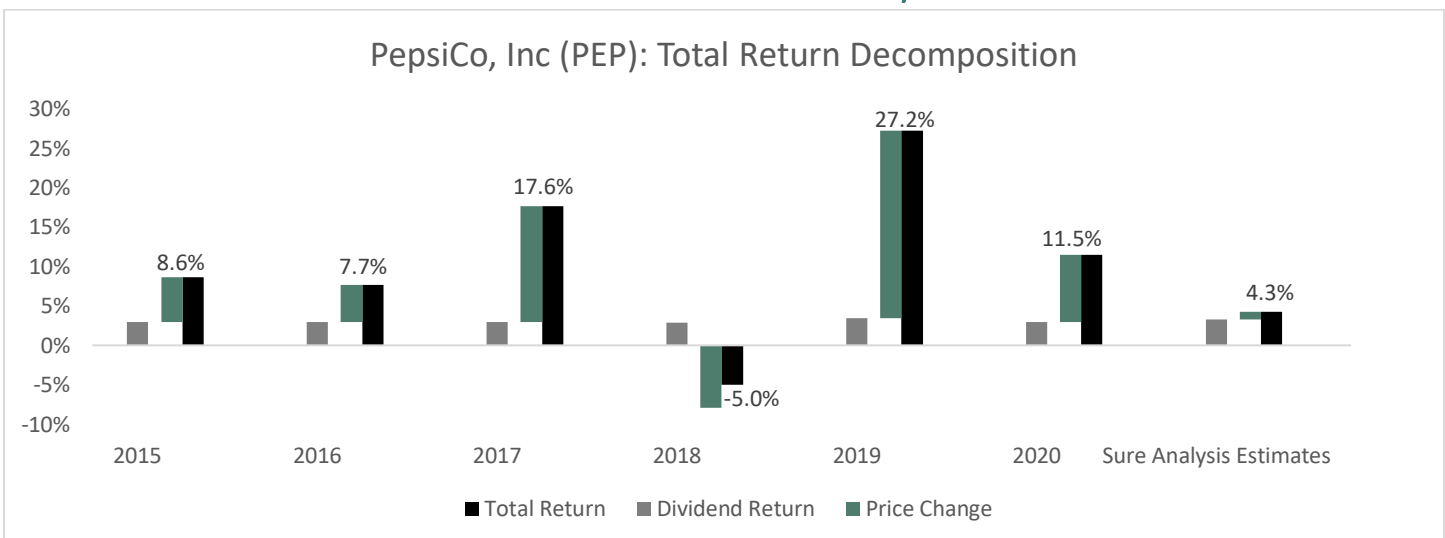
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	51%	54%	53%	59%	60%	61%	60%	61%	69%	73%	<b>74%</b>	<b>74%</b>

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 to return nearly \$6 billion in cash to shareholders in the form of dividends and share repurchases in 2021. 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

After first quarter earnings results, PepsiCo is projected to produce an annual return of 4.3% through 2026. Our projected returns stem from a 5.5% earnings growth rate and starting yield of 3.0% offset by a low single-digit headwind from valuation reversion. PepsiCo reported a generally solid quarter, though comparable results, especially in Quaker Foods, will likely become increasing difficult as the year progresses. PepsiCo is one of our favorite names in the consumer staple sector due to its business model and nearly five decades of dividend growth. We have raised our 2026 price target \$8 to \$152 due to a higher valuation target, but maintain our hold rating on the stock due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	66,504	65,492	66,415	66,683	63,056	62,799	63,525	64,661	67,161	70,372
<b>Gross Profit</b>	34,911	34,201	35,172	35,445	34,325	34,577	34,729	35,280	37,029	38,575
<b>Gross Margin</b>	52.5%	52.2%	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%	54.8%
<b>SG&amp;A Exp.</b>	25,145	24,970	25,357	25,772	24,613	24,773	24,453	25,170	26,738	28,495
<b>D&amp;A Exp.</b>	2,737	2,689	2,663	2,625	2,416	2,368	2,369	2,399	2,432	2,548
<b>Operating Profit</b>	9,633	9,112	9,705	9,581	9,712	9,804	10,276	10,110	10,291	10,080
<b>Op. Margin</b>	14.5%	13.9%	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%	14.3%
<b>Net Profit</b>	6,443	6,178	6,740	6,513	5,452	6,329	4,857	12,515	7,314	7,120
<b>Net Margin</b>	9.7%	9.4%	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%	10.1%
<b>Free Cash Flow</b>	5,605	5,765	6,893	7,647	8,106	7,623	7,061	6,133	5,417	6,373
<b>Income Tax</b>	2,372	2,090	2,104	2,199	1,941	2,174	4,694	(3,370)	1,959	1,894

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	72,882	74,638	77,478	70,509	69,667	73,490	79,804	77,648	78,547	92,918
<b>Cash &amp; Equivalents</b>	4,067	6,297	9,375	6,134	9,096	9,158	10,610	8,721	5,509	8,185
<b>Acc. Receivable</b>	6,036	6,215	6,178	5,817	5,497	5,709	5,956	6,079	6,447	6,892
<b>Inventories</b>	3,827	3,581	3,409	3,143	2,720	2,723	2,947	3,128	3,338	4,172
<b>Goodwill &amp; Int.</b>	33,245	33,496	32,652	29,053	27,258	27,863	28,582	30,633	31,544	38,072
<b>Total Liabilities</b>	51,983	52,239	53,089	52,961	57,637	62,291	68,823	63,046	63,679	79,366
<b>Accounts Payable</b>	4,083	4,451	4,874	5,127	5,546	6,158	6,727	7,213	8,013	8,853
<b>Long-Term Debt</b>	26,773	28,359	29,639	28,897	33,284	36,945	39,281	32,321	32,068	44,150
<b>Total Equity</b>	20,547	22,253	24,238	17,397	11,882	11,054	10,848	14,518	14,786	13,454
<b>D/E Ratio</b>	1.30	1.27	1.22	1.66	2.79	3.33	3.61	2.23	2.17	3.28

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	9.1%	8.4%	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%	8.3%
<b>Return on Equity</b>	30.9%	28.9%	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%	50.4%
<b>ROIC</b>	13.7%	12.6%	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%	13.6%
<b>Shares Out.</b>	1564	1544	1529	1488	1448	1428	1420	1410	1400	1388
<b>Revenue/Share</b>	41.64	41.58	42.57	43.67	42.46	43.25	44.18	45.38	47.73	50.55
<b>FCF/Share</b>	3.51	3.66	4.42	5.01	5.46	5.25	4.91	4.30	3.85	4.58

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

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