



# PepsiCo, Inc (PEP)

Updated July 13<sup>th</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$153	<b>5 Year CAGR Estimate:</b>	4.1%	<b>Market Cap:</b>	\$206 billion
<b>Fair Value Price:</b>	\$124	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	9/3/2021 <sup>1</sup>
<b>% Fair Value:</b>	123%	<b>5 Year Valuation Multiple Estimate:</b>	-4.1%	<b>Dividend Payment Date:</b>	9/30/2021 <sup>2</sup>
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$162	<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 second quarter on 7/13/2021. Revenue grew 20.5% to \$19.2 billion, which was \$1.3 billion better than expected. Adjusted earnings-per-share of \$1.72 was a 30.3% improvement year-over-year and \$0.19 above estimates.

Organic sales were up 12.8% for the quarter compared to estimates of 7.6%. Unit volumes for food and snack were flat while beverages grew 20%. PepsiCo Beverages North America's revenue grew 21% organically, with volumes up 15% as this segment saw strong market share gains. This segment also saw very good debuts for new products such as Mountain Dew Rise. Frito-Lay North America's revenue was up 6% with volumes contributing 1% growth. Quaker Foods North America had a 14% decrease in revenue and volumes were lower by 21%. This segment faced a difficult comparable as it was one of the top performing businesses in the same quarter a year ago due to increased demand related to the COVID-19 pandemic. Revenues in Europe were up 15%, driven mostly by a 17% increase in beverage volumes. The Asia Pacific/Australia/New Zealand/China region had revenue growth of 6% (41% when including contributions from acquisitions), Africa/Middle East/South Asia was up 15% (63% when including contributions from acquisitions) and Latin America gained 16%, all due to at least double-digit gains in beverage volumes. PepsiCo repurchased \$106 million of shares during the first quarter and does not plan to retire additional shares this year.

PepsiCo offered revised guidance for the year. The company raised its organic growth forecast to 6% from mid-single-digit. PepsiCo also expects core earnings-per-share to increase 11% compared to high single-digit growth previously. We have updated our expected earnings-per-share accordingly.

## 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>\$6.20</b>	<b>\$8.10</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>3</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 reaffirmed 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%).

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

<sup>2</sup> Share count in millions

<sup>3</sup> Share count in millions

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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 increased its dividend for 49 consecutive years and it is likely that the company will continue to do so for years to come.

## 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	24.7	20.0
Avg. Yld.	3.1%	3.1%	2.8%	2.8%	2.9%	2.9%	2.8%	3.1%	2.9%	2.9%	2.8%	3.5%

PepsiCo's stock has increased \$9, or 6.3%, since our 4/18/2021 report. Based off of earnings guidance for 2021, the stock has a P/E of 24.7. We are maintaining our 2026 target P/E of 20 to match the stock's average valuation since 2011.

Reverting to our new target would reduce annual returns by 4.1% over the next five years.

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

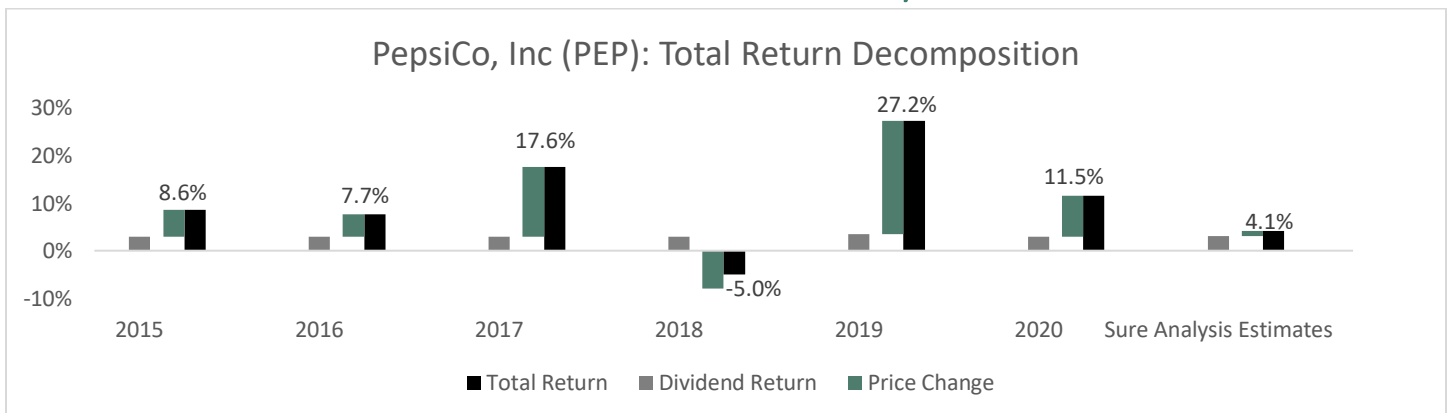
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	51%	54%	53%	59%	60%	61%	60%	61%	69%	73%	69%	69%

PepsiCo 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 second quarter earnings results, PepsiCo is projected to produce an annual return of 4.1% through 2026, down from 4.3% previously. Our projected returns stem from a 5.5% earnings growth rate and starting yield of 2.8% offset by a low single-digit headwind from valuation reversion. PepsiCo was going up against its weakest quarter of 2020 with expectations extremely high and the company still came in well ahead of estimates. The company saw nearly every segment and region post very strong results as well. Even so, the valuation is high. We have increased our 2026 price target \$10 to \$162, but maintain our hold rating on the stock. Income investors will likely find the yield and dividend growth streak very appealing.

## 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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