



Keurig Dr. Pepper Inc. (KDP)

Updated August 31st, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	9.5%	Market Cap:	\$49.8B
Fair Value Price:	\$32	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	10/01/21
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	10/16/21
Dividend Yield:	2.0%	5 Year Price Target	\$52	Years Of Dividend Growth:	1
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	18.8%

Overview & Current Events

Keurig Dr. Pepper (KDP) is the result of a ~\$20B merger between Dr. Pepper Snapple (DPS) and Keurig Green Mountain completed in mid-2018. The new company started trading on July 10, 2018. KDP is now the third largest non-alcoholic beverage company in terms of revenue in the U.S. behind Coca-Cola (KO) and Pepsi (PEP). KDP reports four business segments: Coffee Systems, Packaged Beverages, Beverage Concentrates and Latin America Beverages. Major brands include Core, Dr. Pepper, Sunkist, Canada Dry, Bai, 7UP, Snapple, and Keurig. JAB Holdings controls ~34% of common stock and Mondelez owns ~8.4%, leaving ~58% as public float. KDP had net sales of about \$11.62B in fiscal 2020.

Keurig Dr. Pepper reported excellent Q2 2021 results on July 29, 2021. Companywide net sales grew 9.6% to \$3,140M from \$2,864M in the prior year on the strength of higher volumes and higher prices in most segments. Adjusted diluted earnings per share increased 15.2% to \$0.38 in the quarter, compared to \$0.33 in the year-ago period. Coffee Systems had 0.2% volume growth of K-Cup pods and improved prices, and 29% growth of brewers due to innovation, new brewers, and Prime Day The away-from-home business in offices and hospitality is still slow. Packaged beverages saw volume growth of 6.2% and higher price realization and most brands had higher sales except Hawaiian Punch. Beverage Concentrates rebounded from pandemic headwinds with 10.3% higher volumes and 10.4% higher price realization. Latin America Beverages volumes also rebounded by 16.6% and price realization was 4.2% higher.

The company continues to aggressively reduce leverage, and the leverage ratio is now 3.4X at the end of the quarter compared to roughly 6X at the merger and 4.5X at end of 2019. The company has paid down over \$2.5B worth of debt since the merger. The company is targeting a leverage ratio of 3.0X or lower at end of 2021.

Keurig Dr. Pepper reaffirmed guidance of adjusted diluted EPS growth of 13% to 15% and increased net sales growth guidance to 6% to 7%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	--	--	--	--	--	--	--	\$1.04 ¹	\$1.22	\$1.40	\$1.60	\$2.58
DPS	--	--	--	--	--	--	--	\$0.30	\$0.60	\$0.60	\$0.71	\$0.91
Shares²	--	--	--	--	--	--	--	1,406	1,407	1,407	1,407	1,407

Due to the recent merger, there is little historical earnings and dividend data available for Keurig Dr. Pepper. Keurig Dr. Pepper is expecting top line growth of 6% - 7% and 13% - 15% bottom line growth in 2021, same as 2020 after accounting for merger synergies. COVID-19 is impacting the company but the focus on coffee at home and packaged beverages is providing some tailwind despite weakness in food service and the away-from-home business. That said, the company performed well in 2020. Keurig Dr. Pepper paid a \$0.60 per share dividend in 2019 and 2020 but raised the dividend to an annual rate of \$0.75 in Q2 2021. This bodes well for those seeking dividend growth combined with the modest payout ratio. We do not expect significant share buybacks as management has indicated that debt repayment and deleveraging is a priority.

¹ Adjusted pro forma assuming that the merger occurred on December 31, 2016.

² Share count in millions.

Disclosure: This analyst is long KDP.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	--	--	--	--	--	--	--	46.2	31.9	30.3	22.1	20.0
Avg. Yld.	--	--	--	--	--	--	--	1.2%	2.4%	2.1%	2.0%	1.8%

Keurig Dr. Pepper's share price is down slightly since our last report. The company is performing well on the strength of its brands and product portfolio. We have pegged our 2021 earnings estimate at the mid-point of guidance. Our estimated fair value multiple is 20X, near that of its two larger competitors, but there is uncertainty due to the short operating history. Our fair value price estimate is now \$32. Our 5-year price target is now \$52.

Safety, Quality, Competitive Advantage, & Recession Resiliency

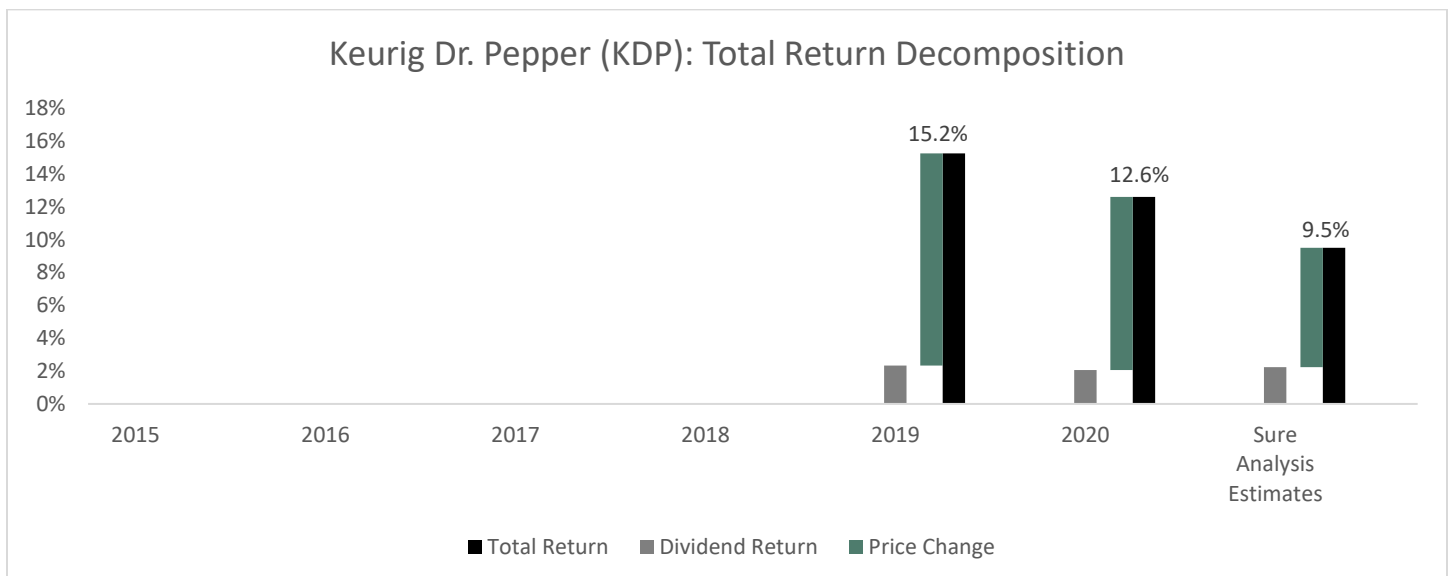
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	--	--	--	--	--	--	--	29%	49%	43%	45%	35%

Keurig Dr. Pepper now controls one of the three major non-alcoholic beverage distribution networks in the U.S. giving it a major competitive advantage. From a brand perspective, Dr. Pepper and Canada Dry are market leaders; Snapple is the market leader in ready-to-drink teas; Bai, is a leader in enhanced flavor water; and Green Mountain Coffee is the market leader in K-Cup pods. The company's brewing systems have achieved 20% household penetration and the estimated potential is 30% - 50%. Keurig Dr. Pepper has recession resistant characteristics due to strength of its brands and product portfolio. The coffee category is becoming increasingly competitive with new entrants including Coca-Cola.

Keurig Dr. Pepper is deleveraging rapidly. Short-term debt is now \$1,323M and long-term debt is \$11,721M at end of Q2 2021. Cash on hand is only \$167M. The current leverage ratio is approximately 3.4X.

Final Thoughts & Recommendation

At present, we are forecasting 9.5% total annualized return over the next five years. Keurig Dr. Pepper's momentum in 2020 has continued into 2021. The company is seemingly delivering on its target of lower leverage, and revenue and earnings growth. Keurig Dr. Pepper has raised the dividend for the first time and the low payout ratio suggests that future increases may occur. At the current stock price, we rate Keurig Dr. Pepper a buy.



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5903	5995	5997	6121	6282	6440	6690	7442	11120	11618
Gross Profit	3418	3495	3498	3630	3723	3858	3995	3882	6342	6486
Gross Margin	57.9%	58.3%	58.3%	59.3%	59.3%	59.9%	59.7%	52.2%	57.0%	55.8%
SG&A Exp.	2257	2268	2328	2334	2313	2329	2556	2635	3962	3978
D&A Exp.	232	240	234	235	227	224	229	462	698	495
Operating Profit	1024	1092	1046	1180	1298	1433	1388	1237	2378	2547
Operating Margin	17.3%	18.2%	17.4%	19.3%	20.7%	22.3%	20.7%	16.6%	21.4%	21.9%
Net Profit	606	629	624	703	764	847	1076	586	1254	1325
Net Margin	10.3%	10.5%	10.4%	11.5%	12.2%	13.2%	16.1%	7.9%	11.3%	11.4%
Free Cash Flow	542	258	682	851	834	779	830	1433	2109	1939
Income Tax	320	349	-81	371	420	434	95	202	440	428

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9283	8928	8201	8265	8869	9791	10022	48918	49518	49779
Cash & Equivalents	701	366	153	237	911	1787	61	83	75	240
Accounts Receivable	585	552	564	556	570	595	668	1150	1115	1048
Inventories	212	197	200	204	209	202	229	626	654	762
Goodwill & Int. Ass.	5657	5667	5682	5674	5651	5649	7342	43978	44289	44152
Total Liabilities	7020	6648	5924	5971	6686	7657	7571	26385	26261	25949
Accounts Payable	265	283	271	289	277	303	365	2300	3176	3740
Long-Term Debt	2701	2748	2574	2497	3246	4325	4296	15659	14420	13488
Shareholder's Equity	2263	2280	2277	2294	2183	2134	2451	22533	23257	23829
D/E Ratio	1.19	1.21	1.13	1.09	1.49	2.03	1.75	0.69	0.62	0.57

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.7%	6.9%	7.3%	8.5%	8.9%	9.1%	10.9%	2.0%	2.5%	2.7%
Return on Equity	25.7%	27.7%	27.4%	30.8%	34.1%	39.2%	46.9%	4.7%	5.5%	5.6%
ROIC	12.8%	12.6%	12.6%	14.6%	15.0%	14.2%	16.3%	2.6%	3.3%	3.5%
Shares Out.	--	--	--	--	--	--	--	1,400	1,406	1,406
Revenue/Share	26.69	28.24	29.33	31.01	32.65	34.51	36.60	6.78	7.84	8.17
FCF/Share	2.45	1.22	3.34	4.31	4.33	4.17	4.54	1.31	1.49	1.36

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

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