PepsiCo, Inc (PEP)

Updated February 11th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$168	**5 Year CAGR Estimate:**	4.6%	**Market Cap:**	$233 billion
Fair Value Price:	$140	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	3/2/2022
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	3/30/2022
Dividend Yield:	2.7%	**5 Year Price Target**	$183	**Years Of Dividend Growth:**	50
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	7.0%

Overview & Current Events

PepsiCo is a global food and beverage company that generates $82 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 more than 20 $1 billion brands in its portfolio. PepsiCo was founded in 1898 and currently employs 291,000 people around the world.

On 2/10/2022, PepsiCo announced that it would increase its annualized dividend by 7% to $4.60 starting with the dividend expected to be paid in June 2022, making the company a Dividend King. The company also announced a share repurchase authorization of up to $10 billion.

PepsiCo reported earnings results for the fourth quarter on 2/10/2022. For the quarter, revenue increased 12.4% to $25.3 billion, topping expectations by $1 billion. Adjusted earnings-per-share of $1.53 compared to adjusted earnings-per-share of $1.47 in the prior year. For the year, revenue grew 12.9% to $79.5 billion while adjusted earnings-per-share of $6.26 compared to $5.52 in 2020.

Organic sales for the fourth quarter and full year were 11.9% and 9.5%, respectively. For the quarter, beverages overall had an 7% increase in volumes while food and snack was up 4%. PepsiCo Beverages North America's revenue grew 12% organically, with volumes up 7% as this segment continues to see higher market share penetration. Frito-Lay North America's revenue was up 13% with volumes adding 4% to growth. Quaker Foods North America grew 9%, with higher prices offsetting a 2% decline in volume. Revenues in Europe were up 9% due mostly to higher prices. The Asia Pacific/Australia/New Zealand/China region had revenue growth of 13%, Africa/Middle East/South Asia was up 8% and Latin America gained 17%, again due primarily to strength in beverages.

PepsiCo provided an outlook for 2022 as well, with the company expecting adjusted earnings-per-share of $6.67 and organic sales of 6% for the year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.92	$4.37	$4.27	$4.66	$4.85	$5.23	$5.65	$5.53	$5.52	$6.26	***$6.67***	***$8.72***
DPS	$2.13	$2.24	$2.53	$2.79	$2.96	$3.12	$3.47	$3.82	$4.02	$4.25	***$4.60***	***$6.01***
Shares[1]	1544	1529	1488	1448	1428	1420	1410	1400	1388	1390	***1390***	***1365***

PepsiCo grew earnings at a rate of 5.3% per year from 2012 to 2021. Due to company's organic growth guidance, we have reaffirmed our expected earnings-per-share growth of 5.5% through 2027. PepsiCo's growth over this time period will accrue from organic sales growth and share repurchases.

Following the dividend increase for the June dividend payment, PepsiCo will have the required 50 years of dividend growth to become a member of the Dividend Kings.

[1] 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.4	18.4	20.8	20.7	21.4	21.6	19.1	23.1	24.7	27.7	***25.2***	***21.0***
Avg. Yld.	3.1%	2.8%	2.8%	2.9%	2.9%	2.8%	3.1%	2.9%	2.9%	2.4%	***2.7%***	***3.3%***

PepsiCo's stock has declined $15, or 9.8%, since our 10/5/2021 report. Based off of earnings guidance for 2022, the stock has a P/E of 25.2. We are raising our 2027 target P/E to 21 from 20 to match the stock's average valuation since 2012 and the quality of recent results. Reverting to our new target would reduce annual returns by 3.6% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

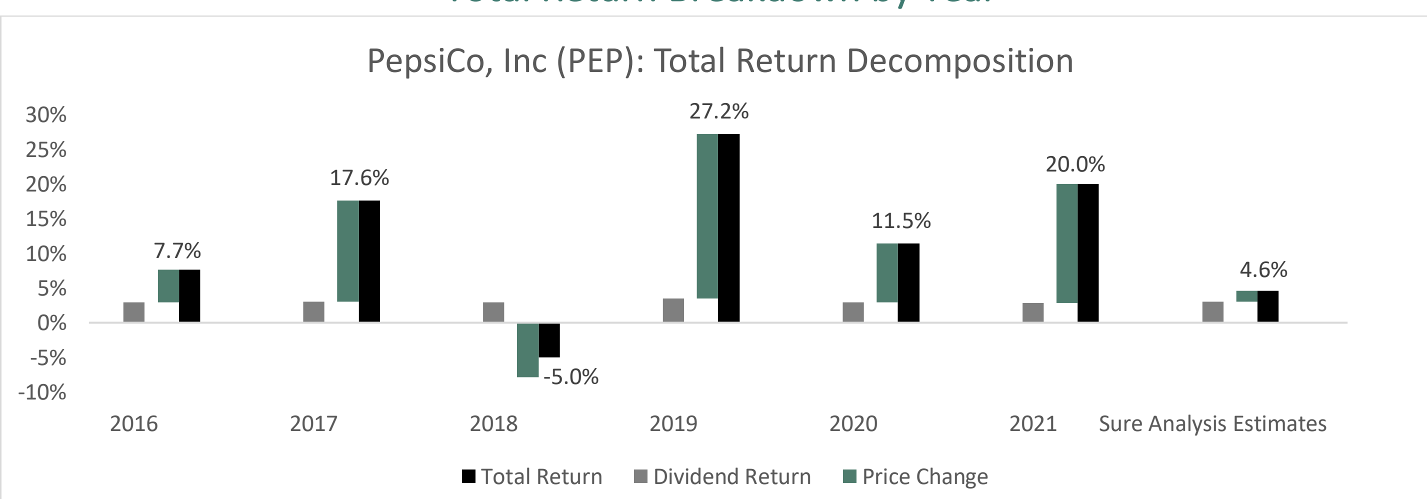
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	54%	53%	59%	60%	61%	60%	61%	69%	73%	68%	***69%***	***69%***

PepsiCo is a relatively recession-proof company. Earnings grew during the last recession and it offers a generous dividend yield. The company is expecting to return $7.7 billion in cash to shareholders in the form of dividends and share repurchases in 2022. 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 about half of sales.

Final Thoughts & Recommendation

After fourth quarter earnings results, PepsiCo is projected to produce an annual return of 4.6% through 2027, up slightly from 4.4% previously. Our projected returns stem from a 5.5% earnings growth rate and starting yield of 2.7% offset by a low single-digit headwind from valuation reversion. PepsiCo ended 2021 on a high note and has guided towards strong revenue and earnings growth for the new year. We have raised our five-year price target $21 to $183 to reflect earnings guidance for the year. We maintain our holding rating on the stock due to projected returns, but note it is one of our favorite dividends paying stocks due to its business model, 20+ $1 billion brands and long-term dividend growth track record.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	65,492	66,415	66,683	63,056	62,799	63,525	64,661	67,161	70,372	79,474
Gross Profit	34,201	35,172	35,445	34,325	34,577	34,729	35,280	37,029	38,575	42,399
Gross Margin	52.2%	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%	54.8%	53.3%
SG&A Exp.	24,970	25,357	25,772	24,613	24,773	24,453	25,170	26,738	28,495	31,237
D&A Exp.	2,689	2,663	2,625	2,416	2,368	2,369	2,399	2,844	3,026	3,215
Operating Profit	9,112	9,705	9,581	9,712	9,804	10,276	10,110	10,291	10,080	11,162
Op. Margin	13.9%	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%	14.3%	14.0%
Net Profit	6,178	6,740	6,513	5,452	6,329	4,857	12,515	7,314	7,120	7,618
Net Margin	9.4%	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%	10.1%	9.6%
Free Cash Flow	5,765	6,893	7,647	8,106	7,623	7,061	6,133	5,417	6,373	6,991
Income Tax	2,090	2,104	2,199	1,941	2,174	4,694	(3,370)	1,959	1,894	2,142

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	74,638	77,478	70,509	69,667	73,490	79,804	77,648	78,547	92,918	92,377
Cash & Equivalents	6,297	9,375	6,134	9,096	9,158	10,610	8,721	5,509	8,185	5,596
Acc. Receivable	6,215	6,178	5,817	5,497	5,709	5,956	6,079	6,447	6,892	7,172
Inventories	3,581	3,409	3,143	2,720	2,723	2,947	3,128	3,338	4,172	4,347
Goodwill & Int.	33,496	32,652	29,053	27,258	27,863	28,582	30,633	31,544	38,072	37,046
Total Liabilities	52,239	53,089	52,961	57,637	62,291	68,823	63,046	63,679	79,366	76,226
Accounts Payable	4,451	4,874	5,127	5,546	6,158	6,727	7,213	8,013	8,853	9,834
Long-Term Debt	28,359	29,639	28,897	33,284	36,945	39,281	32,321	32,068	44,150	40,334
Total Equity	22,253	24,238	17,397	11,882	11,054	10,848	14,518	14,786	13,454	16,043
LTD/E Ratio	1.27	1.22	1.66	2.79	3.33	3.61	2.23	2.17	3.28	2.51

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.4%	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%	8.3%	8.2%
Return on Equity	28.9%	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%	50.4%	51.7%
ROIC	12.6%	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%	13.6%	13.3%
Shares Out.	1544	1529	1488	1448	1428	1420	1410	1400	1388	1390
Revenue/Share	41.58	42.57	43.67	42.46	43.25	44.18	45.38	47.73	50.55	57.22
FCF/Share	3.66	4.42	5.01	5.46	5.25	4.91	4.30	3.85	4.58	5.03

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