



# PepsiCo, Inc (PEP)

Updated April 26<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$174	<b>5 Year CAGR Estimate:</b>	3.7%	<b>Market Cap:</b>	\$240 billion
<b>Fair Value Price:</b>	\$139	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	06/02/22 <sup>1</sup>
<b>% Fair Value:</b>	125%	<b>5 Year Valuation Multiple Estimate:</b>	-4.4%	<b>Dividend Payment Date:</b>	06/30/22 <sup>2</sup>
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$182	<b>Years Of Dividend Growth:</b>	50
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Sell

## 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 309,000 people around the world.

On February 10<sup>th</sup>, 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.

On April 26<sup>th</sup>, 2022, PepsiCo reported first quarter results for the period ending March 31<sup>st</sup>, 2022. Revenue grew 9.3% to \$16.2 billion, topping analysts' estimates by \$660 million. Adjusted earnings-per-share of \$1.29 compared to \$1.21 in the prior year and was \$0.06 ahead of expectations.

Organic sales for the first quarter were higher by 13.7%. Beverages and foods had volume growth of 6% and 3%, respectively. PepsiCo Beverages North America's revenue grew 13% organically, with volumes adding 7%. Frito-Lay North America's revenue was up 14% with volumes adding just 1% as higher prices were the primary driver of growth. Quaker Foods North America was up 11% as pricing more than offset a 1.5% decline in volume. Revenues in Europe were up 11%, again due mostly to higher prices. The Asia Pacific/Australia/New Zealand/China region had revenue growth of 9% and Latin America gained 22%, again due primarily to strength in beverages. Africa/Middle East/South Asia was up 18% due to strength in both beverages and food.

PepsiCo provided a revised outlook for 2022 as well, with the company expecting adjusted earnings-per-share of \$6.63. Organic sales are now projected to be higher by 8%, up from 6% previously.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.92	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.53	\$5.52	\$6.26	<b>\$6.63</b>	<b>\$8.67</b>
<b>DPS</b>	\$2.13	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.02	\$4.25	<b>\$4.60</b>	<b>\$6.01</b>
<b>Shares<sup>3</sup></b>	1544	1529	1488	1448	1428	1420	1410	1400	1388	1390	<b>1391</b>	<b>1365</b>

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.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</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	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	26.2	21.0
Avg. Yld.	3.1%	2.8%	2.8%	2.9%	2.9%	2.8%	3.1%	2.9%	2.9%	2.4%	2.6%	3.3%

PepsiCo's stock has increased \$6, or 3.6%, since our February 11<sup>th</sup>, 2022 report. Based off of earnings guidance for 2022, the stock has a P/E of 26.2. We reaffirm our 2027 target P/E of 21 from 20 to match the stock's average valuation since 2012 and the quality of recent results. Reverting to our target would reduce annual returns by 4.4% over the next five years.

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

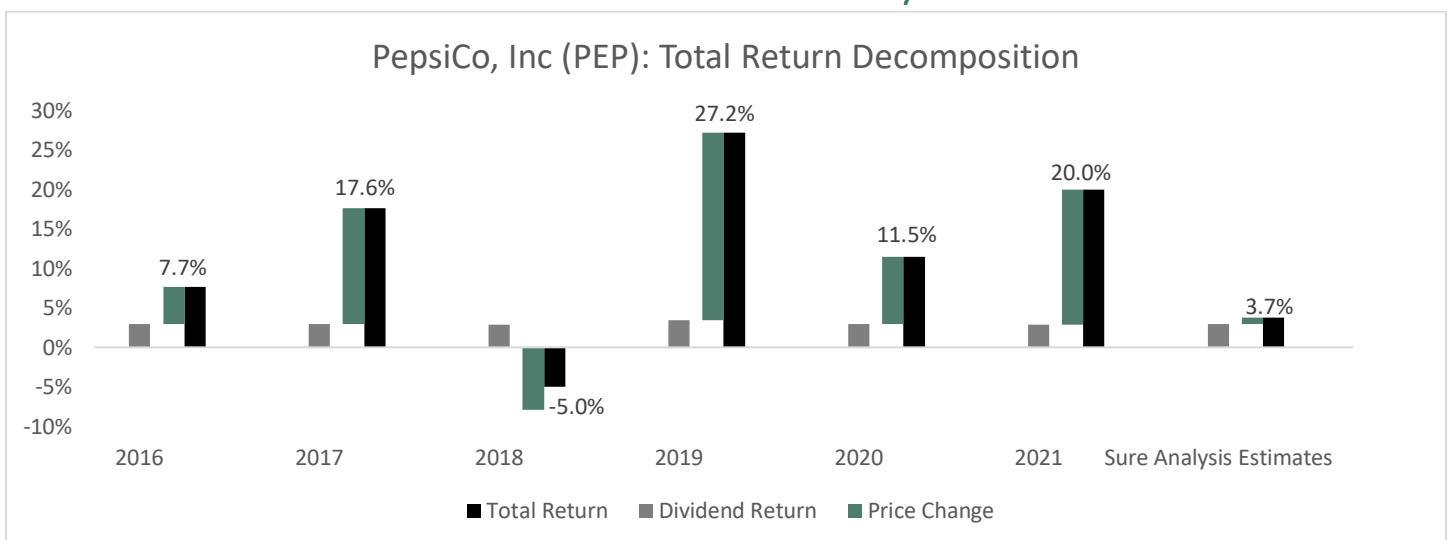
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	54%	53%	59%	60%	61%	60%	61%	69%	73%	68%	69%	69%

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 first quarter earnings results, PepsiCo is projected to produce an annual return of 3.7% through 2027, down slightly from our prior estimate of 4.6%. Our projected returns stem from a 5.5% earnings growth rate and a starting yield of 2.6% offset by a low single-digit headwind from valuation reversion. PepsiCo has successfully navigated the impact from higher raw material costs in its business through price increases without impacting demand very much. This is a sign of a strong company that has brands that resonate with consumers. The company is also set to join the Dividend Kings. Still, total returns are lacking at this point and we rate shares of PepsiCo as a sell as a result.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	65,492	66,415	66,683	63,056	62,799	63,525	64,661	67,161	70,372	79,474
<b>Gross Profit</b>	34,201	35,172	35,445	34,325	34,577	34,729	35,280	37,029	38,575	42,399
<b>Gross Margin</b>	52.2%	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%	54.8%	53.3%
<b>SG&amp;A Exp.</b>	24,970	25,357	25,772	24,613	24,773	24,453	25,170	26,738	28,495	31,237
<b>D&amp;A Exp.</b>	2,689	2,663	2,625	2,416	2,368	2,369	2,399	2,844	3,026	3,215
<b>Operating Profit</b>	9,112	9,705	9,581	9,712	9,804	10,276	10,110	10,291	10,080	11,162
<b>Op. Margin</b>	13.9%	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%	14.3%	14.0%
<b>Net Profit</b>	6,178	6,740	6,513	5,452	6,329	4,857	12,515	7,314	7,120	7,618
<b>Net Margin</b>	9.4%	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%	10.1%	9.6%
<b>Free Cash Flow</b>	5,765	6,893	7,647	8,106	7,623	7,061	6,133	5,417	6,373	6,991
<b>Income Tax</b>	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
<b>Total Assets</b>	74,638	77,478	70,509	69,667	73,490	79,804	77,648	78,547	92,918	92,377
<b>Cash &amp; Equivalents</b>	6,297	9,375	6,134	9,096	9,158	10,610	8,721	5,509	8,185	5,596
<b>Acc. Receivable</b>	6,215	6,178	5,817	5,497	5,709	5,956	6,079	6,447	6,892	7,172
<b>Inventories</b>	3,581	3,409	3,143	2,720	2,723	2,947	3,128	3,338	4,172	4,347
<b>Goodwill &amp; Int.</b>	33,496	32,652	29,053	27,258	27,863	28,582	30,633	31,544	38,072	37,046
<b>Total Liabilities</b>	52,239	53,089	52,961	57,637	62,291	68,823	63,046	63,679	79,366	76,226
<b>Accounts Payable</b>	4,451	4,874	5,127	5,546	6,158	6,727	7,213	8,013	8,853	9,834
<b>Long-Term Debt</b>	28,359	29,639	28,897	33,284	36,945	39,281	32,321	32,068	44,150	40,334
<b>Total Equity</b>	22,253	24,238	17,397	11,882	11,054	10,848	14,518	14,786	13,454	16,043
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	8.4%	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%	8.3%	8.2%
<b>Return on Equity</b>	28.9%	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%	50.4%	51.7%
<b>ROIC</b>	12.6%	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%	13.6%	13.3%
<b>Shares Out.</b>	1544	1529	1488	1448	1428	1420	1410	1400	1388	1390
<b>Revenue/Share</b>	41.58	42.57	43.67	42.46	43.25	44.18	45.38	47.73	50.55	57.22
<b>FCF/Share</b>	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.

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