



Diageo plc (DEO)

Updated August 5th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$120	5 Year CAGR Estimate:	14.3%	Market Cap:	\$67 B
Fair Value Price:	\$143	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/30/24
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.6%	Dividend Payment Date:	10/17/24
Dividend Yield:	3.5%	5 Year Price Target	\$210	Years Of Dividend Growth:	11 ¹
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Diageo is a large alcoholic beverages company. The company dates all the way back to the 17th century and the Haig family, the oldest family of Scotch whisky distillers. Today, Diageo manufactures popular spirits and beer brands, such as Johnnie Walker, Smirnoff, Captain Morgan, Baileys, Tanqueray, Guinness, Crown Royal, Ketel One, and many more. Diageo has 20 of the world's top 100 spirits brands. Diageo is based in the U.K., but U.S. investors have access to the company through an America Depositary Receipt, or ADR. One ADR share equals four shares of the underlying company.

On July 30th, 2024, Diageo released earnings results for fiscal year 2024 for the period ending June 30th, 2023. For the year, the company earned \$6.91 per share, which was 5% above the prior year's result, but well below estimates. Net sales decreased 1.4% while organic growth was lower by 0.6%. A small benefit from pricing and mix was more than offset by a 3.5% decrease in volume. Most regions performed well. Organic revenue growth for Africa, Asia Pacific, and Europe totaled 12%, 4%, and 3%. North America was down 3% while Latin American and Caribbean was down 21%. The decrease in North America was due to a cautious consumer market and tough comparable periods. Total market share grew or held steady in 75% of the portfolio, which compared to 70% in fiscal year 2023. Premium-plus brands accounted for the majority of net sales.

We expect Diageo to earn \$7.15 per share in fiscal year 2025, which would be a 3.5% increase from the prior fiscal year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$5.95	\$4.78	\$5.60	\$6.20	\$6.70	\$5.60	\$6.50	\$7.47	\$6.58	\$6.91	\$7.15	\$10.51
DPS	\$3.36	\$3.12	\$3.20	\$3.44	\$3.46	\$3.55	\$4.02	\$3.96	\$3.64	\$4.01	\$4.14	\$5.28
Shares²	689	689	689	674	670	645	645	581	568	556	556	545

Diageo's primary catalyst for earnings growth is the emerging markets. Emerging markets such as Latin America, China, and India have huge growth potential for Diageo, as these regions have large populations and rapidly-expanding middle classes. Share repurchases will also fuel earnings growth, though the company has paused its share repurchase program recently. We do believe that Diageo will eventually restart its share repurchases. We estimate 8% annual earnings growth over the following five years given the company's solid organic growth results under normalized conditions.

Diageo's for fiscal year 2025 is expected to be 3.2% higher than it was in the prior fiscal year for U.S. investors.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.9	19.6	22.9	20.1	24.6	24.0	29.5	23.3	26.4	18.2	16.8	20.0
Avg. Yld.	2.7%	2.9%	3.1%	2.7%	2.2%	2.6%	2.1%	2.3%	2.1%	3.2%	3.5%	2.5%

¹ In local currency

² In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Diageo plc (DEO)

Updated August 5th, 2024 by Nathan Parsh

Diageo’s stock has decreased \$30, or 20%, since our March 13th, 2024 report. Diageo currently trades for a price-to-earnings ratio of 16.8 based on estimates for the fiscal year, below our five-year target price-to-earnings ratio of 20.0. If shares were to revert to this new target multiple by fiscal year 2030, then valuation would be a 3.6% tailwind to annual returns over this period.

Diageo pays a semi-annual dividend. Diageo’s current annualized dividend totals ~\$4.14 per ADR. We expect the company to continue to raise the dividend at around 5% annually for the foreseeable future. We note Diageo’s dividend is variable and difficult to predict due to currency fluctuations.

Safety, Quality, Competitive Advantage, & Recession Resiliency

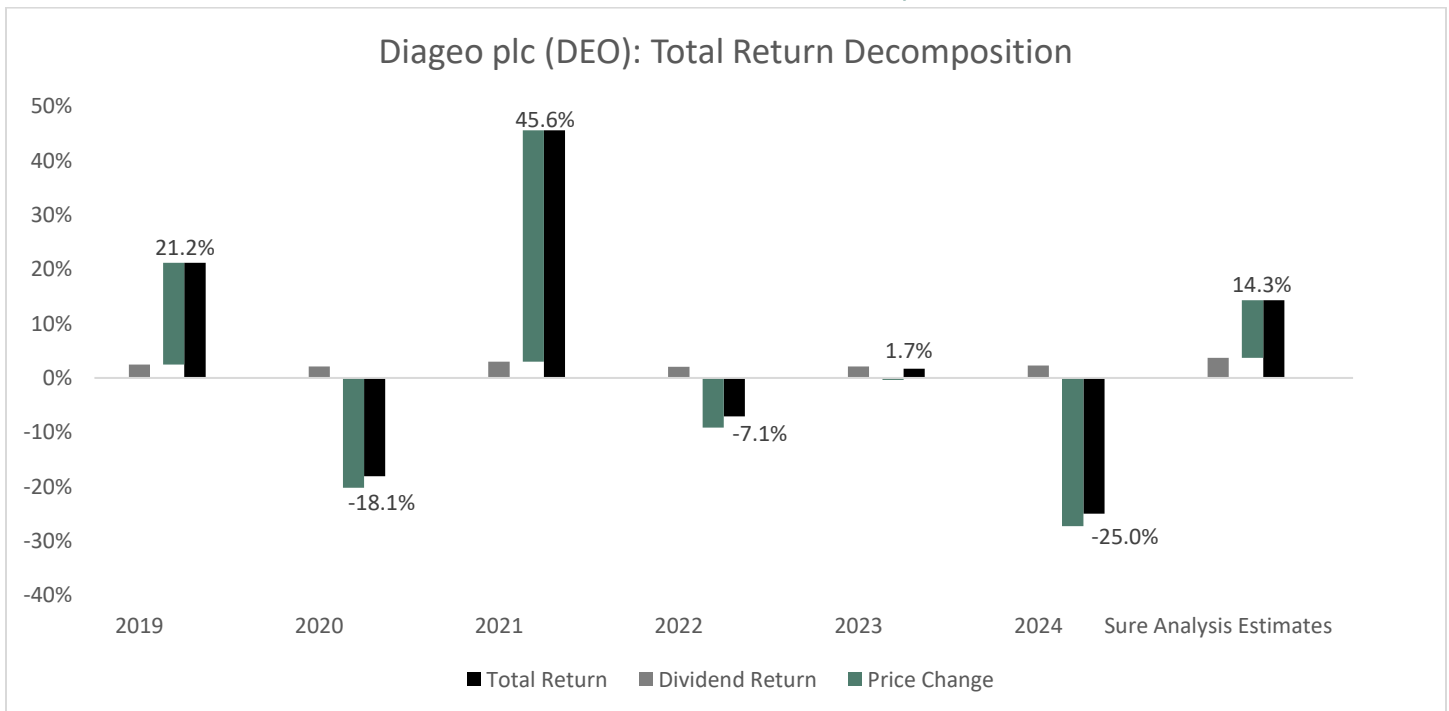
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	57%	65%	57%	56%	54%	63%	62%	53%	55%	58%	58%	50%

Diageo scores highly in terms of safety and quality. The company has a long-term credit rating of A- from Standard & Poor’s, and A3 from Moody’s, which indicates a healthy balance sheet. Diageo’s numerous competitive advantages support its high-quality business model. Its top brands command pricing power, and its massive distribution network will allow the company to expand in new geographic markets. Plus, Diageo is highly resistant to recessions. Spirits and beer demand remains steady during economic downturns—and perhaps even rises during recessions. Diageo remained highly profitable during the Great Recession. Earnings declined slightly in 2010, but more than recovered in 2011. The dividend is highly secure, with a recession-resilient business model and a dividend payout ratio of below 60%.

Final Thoughts & Recommendation

After full year results, Diageo is now expected to offer a total annual return of 14.3% through fiscal 2030, up from our previous estimate of 11.2%. Our projected return stems from an 8% earnings growth rate, a 3.5% starting dividend yield, and a low single-digit tailwind from multiple expansion. Diageo’s year with mixed, with certain regions performing well and other suffering a decline. We have lowered our five-year price target \$22 to \$210 to reflect earnings estimates for fiscal year 2025, but we continue to view shares of Diageo as a buy due to projected returns.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Diageo plc (DEO)

Updated August 5th, 2024 by Nathan Parsh

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	16679	17042	15553	15284	16425	16655	14817	17139	20577	20619
Gross Profit	10128	9776	9247	9348	10167	10357	8949	10358	12623	12307
Gross Margin	60.7%	57.4%	59.5%	61.2%	61.9%	62.2%	60.4%	60.4%	61.3%	59.7%
SG&A Exp.	2634	2567	2317	2280	2541	2643	2321	2911	3623	3676
D&A Exp.	1023	693	702	458	666	484	2319	602	1103	1284
Operating Profit	4402	4408	4078	4514	4984	5232	2694	5022	5871	5581
Op. Margin	26.4%	25.9%	26.2%	29.5%	30.3%	31.4%	18.2%	29.3%	28.5%	27.1%
Net Profit	3790	3753	3329	3376	4081	4090	1776	3580	4327	4499
Net Margin	22.7%	22.0%	21.4%	22.1%	24.8%	24.6%	12.0%	20.9%	21.0%	21.8%
Free Cash Flow	1867	3015	3029	3315	3376	3336	2042	4076	3779	2222
Income Tax	727	734	736	928	805	1162	743	1221	1397	1169

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	39112	40577	38354	37532	38849	39661	40998	44223	44290	44929
Cash & Equivalents	1059	742	1466	1550	1143	1181	4090	3805	2771	1815
Acc. Receivable	3413	3040	2900	2771	2814	2754	2598	2515	3557	2536
Inventories	7191	7193	6164	6229	6557	6935	7105	8366	8604	9663
Goodwill & Int.	13440	17661	16652	16349	16437	15913	13909	14897	14436	14520
Total Liabilities	26185	26022	24650	21883	23536	26790	30610	32554	32750	33209
Accounts Payable	1538	1389	1465	1776	1979	2147	4533	2787	7140	3354
Long-Term Debt	15693	15470	13635	11764	12946	15911	20660	20382	19430	20814
Total Equity	11621	12220	11483	13417	13006	10596	8336	9545	9458	9866
LTD/E Ratio	1.35	1.27	1.19	0.88	1.00	1.50	2.48	2.14	2.05	2.11

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.8%	9.4%	8.4%	8.9%	10.7%	10.4%	4.4%	8.4%	9.8%	10.1%
Return on Equity	33.9%	31.5%	28.1%	27.1%	30.9%	34.7%	18.8%	40.0%	45.5%	46.6%
ROIC	13.5%	12.8%	11.6%	12.3%	14.7%	14.3%	5.9%	11.3%	13.7%	14.2%
Shares Out.	689	689	689	689	674	670	645	645	581	568
Revenue/Share	26.51	27.08	24.71	24.23	26.33	27.44	25.18	29.24	35.40	36.32
FCF/Share	2.97	4.79	4.81	5.26	5.41	5.50	3.47	6.95	6.50	3.91

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.