

PepsiCo Inc.  **PEPSICO**
Ticker: PEP
Sector: Consumer Staples
Industry: Food and Beverage

Intrinsic Value: \$129.08
Current Price: \$82.27
Stop Loss: \$69.93
Upside Review: \$98.72

TTM P/E: 19.04
Forward P/E: 17.32
FV Imp. P/E: 21.29
Beta: 0.61

Market Cap: \$124.66B
Dividend Yield: 2.81%
52 Wk Range: \$67.39-\$87.06

Industry Trends:

Food and beverage companies are facing the increasing demand, consumers expect not only the satisfaction of the basic needs, but also new and healthy characteristics embedded in the products, such as low calories, supplemental vitamins and minerals, and creating energy. We see increased trends for transition from carbonated beverage and unhealthy snack to non-carbonated beverage and organic food. Rising employment levels have supported the consumption on packaged foods and beverage as well. In addition, significant opportunities for growth in developing and emerging markets are strongly increasing. However, commodity-cost pressures remain a concern.

Business Summary:

PepsiCo is a leading company in food and beverage industry, manufacturing, marketing and selling snacks, carbonated and non-carbonated beverages, and foods over the world. PepsiCo includes three business units: PepsiCo Americas Foods (PAF), PepsiCo Beverages America (PAB), and PepsiCo International. PAF produces and sells variety of branded snack and cereals foods, includes FLNA (21% of 2012 net revenue), QFNA (4%) and LAF (12%); PAB (33%) offers kinds of beverage under the brands like Pepsi, Gatorade, and Tropicana juice drinks. It also provides ready-to-drink tea and coffee by joint venture with Lipton and Starbucks. PepsiCo International has Europe (20%) and AMEA (10%), offering their private label snack and beverage in Europe, Asia, the Middle East and Africa.

Investment Thesis:

PepsiCo's strong brand effect, leading market position, diversified product portfolio, global market coverage, and strong cash flow performance make it an attractive and safe security. Long term perspective, we have confidence to see the growth driven by expansion of international and emerging markets. In addition, the productivity plan will bring \$3 billion saving in the next 3 years, and portion of savings is used to strengthen marketing and product development; the product innovation strategy focuses on health and wellness, meeting industry trend; the share repurchase program tends to provide more return to shareholders.

PEP 5 year stock performance:



Direct Competitor Comparison					
	PEP	KO	DPS	MDLZ	Industry
Market Cap:	124.66B	167.44B	8.94B	54.94B	319.19B
Employees:	278,000	150,900	19,000	110,000	150.90K
Qtrly Rev Growth (yoy):	0.02	-0.03	-0.01	0.01	0.20
Revenue (ttm):	65.99B	47.58B	6.00B	35.16B	47.58B
Gross Margin (ttm):	0.53	0.60	0.58	0.37	0.60
EBITDA (ttm):	12.42B	13.13B	1.29B	4.91B	13.13B
Operating Margin (ttm):	0.15	0.23	0.18	0.11	0.26
Net Income (ttm):	6.64B	8.60B	610.00M	1.91B	N/A
EPS (ttm):	4.25	1.90	2.93	1.32	1.90
P/E (ttm):	19.04	19.89	15.01	23.39	37.92
PEG (5 yr expected):	2.27	2.44	1.90	1.71	2.44
P/S (ttm):	1.89	3.52	1.49	1.58	6.71

Sources:

Bloomberg, Value Line Investment Survey, S&P Net Advantage, Yahoo! Finance, sec.gov

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Competitive Analysis:

PepsiCo, Inc. is one of the largest food and beverage companies in the world. Frito-Lay is the number one global salty snack player, Pepsi Beverages is the second-largest beverage company in the world (with leading positions in both carbonated soft drinks (CSDs) and non-CSDs, including Tropicana and Gatorade) and the Quaker division has leading brands in oatmeal, cereal, syrups, other grain products and side dishes. The major rivals are Nestle, Coca-Cola, Kraft, Unilever, Groupe Danone and Dr. Pepper Snapple.

Pros:

- PepsiCo's strong brand image
- High degree of product and geographic diversification
- Strong earnings and cash flow support the long-term investment and growth (generating about \$2 billion a year)
- International expansion to emerging markets, such as China, India and East Europe
- Rising employment levels support the consumer confidence and spending on packaged foods and beverage
- New product and innovation, focusing on healthier food, non-CSDs and "good-for-you" product lines
- Share repurchase program aims to provide more return to shareholders, new plan to buy up to \$10 billion of stock
- Productivity plan expects to save operational spending around \$900 m in 2013 and \$ 3 billion through 2015
- Direct-store delivery, control 80% NA beverage distribution

Risk Factors:

- Health and wellness trends have a negative impact on consumption of CSDs and some snack foods
- Climate change and increasing risk of weather disaster affect the size of crop harvest and cost of commodity
- Food and beverage industry is highly competitive with some strong market players, such as Coca-Cola, Nestle
- Some key markets are mature and have limited growth potential, such as North America and UK
- Politics, foreign currency and regulation risks increase while expanding business to foreign markets

Total Return Estimates:

3 Yr FV Reversion*: 18.4%
 5 Yr FV Reversion*: 20.07%
 (* - From limit order price of \$00.00)

Key Valuation Assumptions:

Est. Revenue Growth 5%
 WACC 5.27%
 Expected Inflation 3%
 Terminal Growth Rate 1.7%
 10 yr. Risk Free Rate 2.69%
 Equity Risk Premium 5.9%
 Tax Rate 23.44%

Key Financial Data:

Est. 2013 EPS 4.79
 Est. 2014 EPS 5.15
 3-5 Yr. Est. EPS Growth 5.63%
 Credit Quality A
 ROE 30.9%
 ROA 8.9%
 Price /Book 4.38
 Price/Cash Flow 12.2
 Debt/Equity 127.4%
 Current Ratio 1.1
 Quick Ratio 0.8
CSR Scores
 Human Rights 1/1
 Business Ethics Policy 1/1
 ESG Disclosure Score 40.05/34.92
 Equal Opportunity Score 1/1
 Emission Reduction 1/1
 Environmental Disclosure Score 32.56/32.24