

Company Overview

PepsiCo, Inc. is an American multinational food, snack, and beverage corporation which has over 22 brands and the products distributed across more than 200 countries. Having a long history of over 50 years, PepsiCo has earned itself a strong reputation and garnered many loyal customers. It continues to grow while transforming its portfolio to meet consumers' shifting preference.

(USD\$ M)	FY16A	FY17A	FY18E	FY19E
Revenue	62,799.0	63,525.0	66,135.9	68,854.1
Gr Rate (%)	-	1.16	4.11	4.11
EBITDA	12,153.0	12,878.0	14,001.0	15,085.9
Margin (%)	19.35	20.27	21.17	21.91
Net Income	6,379.0	4,908.0	7,341.1	8,193.6
Margin (%)	10.16	7.73	11.10	11.90
ROA	8.68	6.15	8.75	9.89
ROE	58.01	43.83	58.15	58.43
EV/EBITDA	14.26	14.79	14.96	15.14
P/E Ratio	23.41	34.80	23.60	22.91
D/E Ratio	3.30	3.58	3.71	3.85

Figure 1. Revenue by Segments



Source: PepsiCo, Inc. 2017 Annual Report

Investment Thesis

Figure 3. Pepsi Co Shift in Portfolio

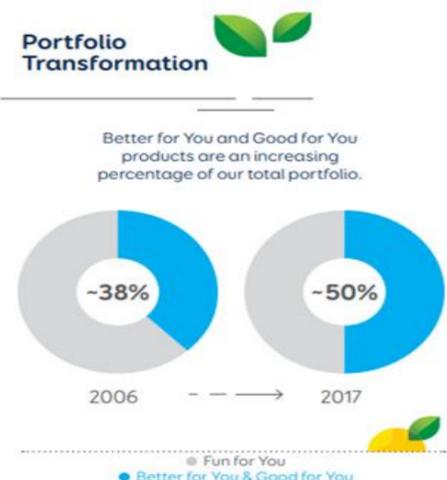
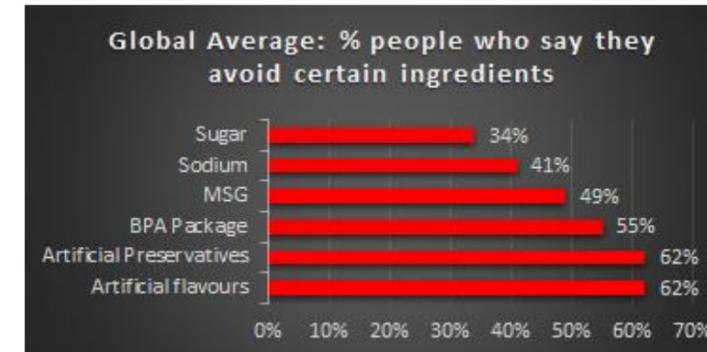
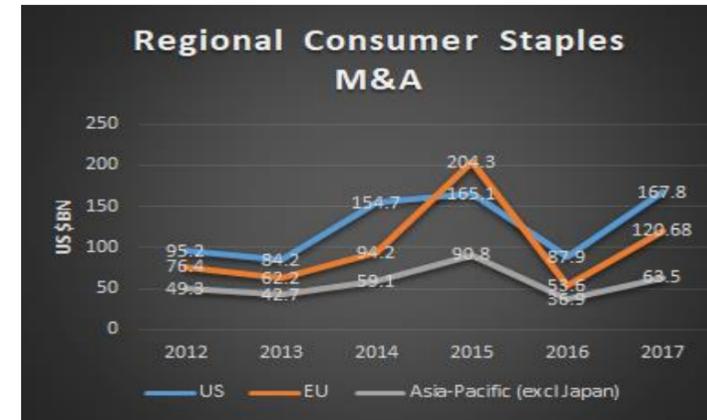


Figure from Pepsi Co's 2017 Annual report

- Leveraging on Big Data to improve operational efficiency**
PepsiCo has invested heavily in digital capabilities such as predictive analytics to better forecast customer demand to optimise production levels. This will lead to higher inventory turnover and reduction in losses due to unsold inventory perishing. The gains in operational efficiency will lead to higher profit margins for Pepsi Co.
- Acquisition of companies that profit from the promotion of healthy lifestyle.** Pepsi Co. acquired new companies like Sodastream and Bare Food to gain profit from the shift in consumer preferences. Sodastream specializes in carbonated water while Bare Food focuses on healthy dried snacks. Sodastream has more than 30% increase in sales this year. On top of that there is also brand loyalty with their carbon dioxide canister refills jumping 17% to 9.7 million in 2018 suggesting a

Please read our disclaimer at the end of this report sustainable and growing revenue channel.

12M Industry Outlook



Source: Mergermarket Consumer report & Nielsen Report Aug 2016

Aggressive M&A for revenue growth

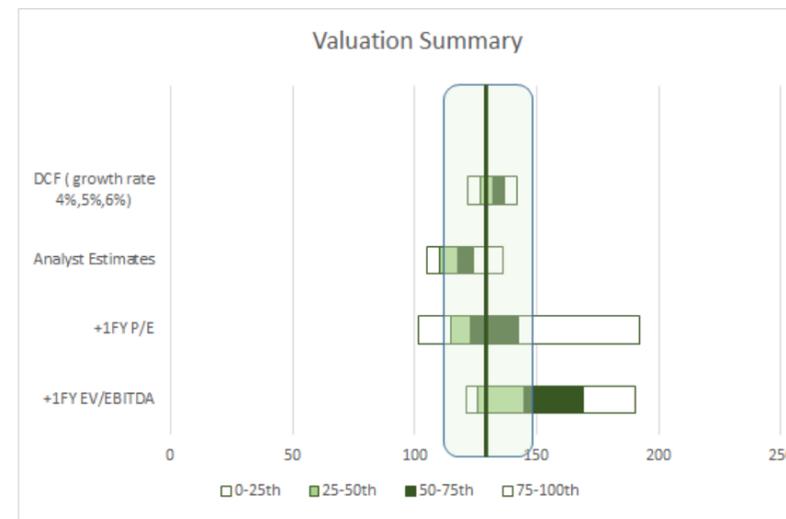
F&B industry particularly in the US has seen an uptick in M&A activity to drive inorganic growth as revenues from traditional areas erode. High profile acquisitions in 2018 include Coca-cola and PepsiCo acquiring Costa Coffee and Sodastream respectively for USD 5.1 billion and 3.2 billion. Separately, Dr Pepper underwent a 18.7 billion merger with Keurig Green mountain.

Changing consumer demand mix.

Consumers dietary choices are shifting due to increased health consciousness. This has led to an increase in demand for healthier food alternatives such as low sugar, artificial flavourings free and preservatives free drinks and snacks.

Valuations

Fig 4 Football field valuation



Our 12 months price target from date is \$129.6, representing a 16.8% upside. Our DCF model assumes a WACC of 6%, a terminal EV/EBITDA multiple of 14.96x and a terminal growth rate of 4.11% year-on-year.

Our assumption is based on the strong leverage on Big Data and the diversification of their portfolio to extend their profit margins in this competitive market. In addition, strong financial performance by the newly acquired companies will increase Pepsi Co revenues adding further support to our target price.

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