

PepsiCo

Catching up with PEP

Reiterate Rating: BUY | PO: 210.00 USD | Price: 167.67 USD

Co-hosted virtual meeting with management

Chairman/CEO Ramon Laguarta and Executive Vice President/CFO Jamie Caulfield joined us for a fireside chat on Friday. Topics covered included 1) **International business:** (40% of sales contributed at 12% organic sales growth in FY23) continues to gain scale across a wider span of countries is poised to contribute meaningfully to sales and profits in '24 and going forward; 2) **Productivity:** investments in automation and digital capabilities are unlocking savings for investment and modest margin expansion; 3) **Pepsi Beverages North America:** content owning bottlers, standing up the *Starry* brand, addressing *Mountain Dew* weakness (marketing and innovation) and driving *Gatorade* in direct store distribution are expected to drive sales (and scale) to help drive margins back to the mid-teens; 4) **North America Volume;** declines in snacks and beverages partially reflect channel shift away from home and natural shift to smaller packages (units much better than volume); 5) **Energy/Caffeine:** ready to drink sourcing volume from coffee, especially *Celsius* due to morning consumption.

Frito-Lay (FLNA) a key story line in 2024 in our view

FLNA posted a rare revenue miss in 4Q due in part to the channel shift dynamic cited above and market share loss in generic sub-categories. Our impression: FLNA will be more competitive where needed in 1Q (Super Bowl), increase marketing on Core and flex through its permissible brands (e.g. *PopCorners*, *Sun Chips*). We expect sequential improvement which should take pressure off the shares.

Raising estimates; reiterate Buy Rating and \$210 PO

We raise our FY24E EPS from \$8.03 to \$8.15 and FY25 from \$8.65 to \$8.84. PEP currently trades at 19x FY25E P/E, an 18% discount to Beverage peers vs historical average of in-line. In our view, FY24 guidance is low risk, we expect investor sentiment on organic sales to improve (PEP and FLNA) as the year progresses. Our \$210 PO reflects a target P/E multiple of 24x our CY25 EPS estimate, unchanged from before. We believe PEP's premium to non-alcoholic beverage peer average of 23x is warranted by their strengthened position and pricing power to manage through the ongoing inflationary environment.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.79	7.62	8.15	8.84	9.55
GAAP EPS	7.16	8.67	8.15	8.84	9.55
EPS Change (YoY)	8.5%	12.2%	7.0%	8.5%	8.0%
Consensus EPS (Bloomberg)			8.15	8.77	9.47
DPS	4.53	4.95	5.33	5.62	5.90
Valuation (Dec)					
P/E	24.7x	22.0x	20.6x	19.0x	17.6x
GAAP P/E	23.4x	19.3x	20.6x	19.0x	17.6x
Dividend Yield	2.7%	3.0%	3.2%	3.4%	3.5%
EV / EBITDA*	18.4x	16.5x	14.9x	14.0x	13.2x
Free Cash Flow Yield*	2.4%	3.4%	2.5%	3.3%	3.7%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 12 February 2024 05:00AM EST

12 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	94,955.0	94,417.6
2025E Rev (m)	99,608.7	98,470.3
2026E Rev (m)	104,515.9	103,237.5
2024E EPS	8.03	8.15
2025E EPS	8.65	8.84
2026E EPS	9.32	9.55
2024E DPS	5.25	5.33

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Stock Data

Price	167.67 USD
Price Objective	210.00 USD
Date Established	26-Apr-2023
Investment Opinion	A-1-7
52-Week Range	155.83 USD - 196.88 USD
Mkt Val (mn) / Shares Out	233,397 USD / 1,392.0 (mn)
Free Float	99.8%
Average Daily Value (mn)	919.24 USD
BofA Ticker / Exchange	PEP / NAS
Bloomberg / Reuters	PEP US / PEP.OQ
ROE (2024E)	55.8%
Net Dbt to Eqty (Dec-2023A)	183.2%
ESGMeter TM	High

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iQprofileSM PepsiCo

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.2%	15.3%	15.4%	15.8%	16.2%
Return on Equity	56.4%	58.7%	55.8%	52.1%	48.3%
Operating Margin	14.3%	15.2%	15.7%	16.1%	16.4%
Free Cash Flow	5,604	7,924	5,922	7,728	8,724

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.3x	1.0x	1.1x	1.1x
Asset Replacement Ratio	1.9x	1.9x	1.4x	1.3x	1.2x
Tax Rate	20.0%	20.3%	20.0%	20.0%	20.0%
Net Debt-to-Equity Ratio	196.1%	183.2%	170.3%	150.9%	131.3%
Interest Cover	13.1x	16.9x	15.5x	18.4x	21.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	86,392	91,471	94,418	98,470	103,237
% Change	8.7%	5.9%	3.2%	4.3%	4.8%
Gross Profit	46,102	49,737	52,065	54,497	57,341
% Change	8.6%	7.9%	4.7%	4.7%	5.2%
EBITDA	15,088	16,823	18,643	19,876	21,112
% Change	6.8%	11.5%	10.8%	6.6%	6.2%
Net Interest & Other Income	(463)	(556)	(676)	(577)	(511)
Net Income (Adjusted)	9,421	10,533	11,230	12,130	13,043
% Change	8.4%	11.8%	6.6%	8.0%	7.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	9,421	10,533	11,230	12,130	13,043
Depreciation & Amortization	2,763	2,948	3,816	4,023	4,183
Change in Working Capital	(888)	(337)	(3,724)	(3,025)	(3,502)
Deferred Taxation Charge	(873)	(271)	0	0	0
Other Adjustments, Net	388	569	0	0	0
Capital Expenditure	(5,207)	(5,518)	(5,400)	(5,400)	(5,000)
Free Cash Flow	5,604	7,924	5,922	7,728	8,724
% Change	-19.8%	41.4%	-25.3%	30.5%	12.9%
Share / Issue Repurchase	(1,362)	(884)	(1,000)	(1,000)	(1,000)
Cost of Dividends Paid	(6,172)	(6,682)	(7,335)	(7,706)	(8,059)
Change in Debt	(810)	4,770	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,954	9,711	7,348	6,369	6,034
Trade Receivables	10,163	10,815	8,995	10,728	14,769
Other Current Assets	6,422	6,424	6,503	6,291	6,556
Property, Plant & Equipment	24,291	27,039	28,623	30,000	30,816
Other Non-Current Assets	46,357	46,506	46,506	46,506	46,506
Total Assets	92,187	100,495	97,974	99,893	104,682
Short-Term Debt	3,414	6,510	6,510	6,510	6,510
Other Current Liabilities	23,371	25,137	19,671	18,167	18,972
Long-Term Debt	35,657	37,595	37,595	37,595	37,595
Other Non-Current Liabilities	12,472	12,616	12,616	12,616	12,616
Total Liabilities	74,914	81,858	76,392	74,888	75,693
Total Equity	17,397	18,771	21,582	25,005	28,989
Total Equity & Liabilities	92,311	100,629	97,974	99,893	104,682

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Soft Drinks

Company Description

PepsiCo, a global snack and beverage company, manufactures and markets salty and convenient snacks, carbonated and non-carbonated beverages and foods. Divisions include Frito-Lay North America (FLNA), Quaker Foods NA, North America Beverages (NAB), Latin America, Europe Sub-Saharan Africa (ESSA) and Asia, Middle East and North Africa (AMENA). Key exposures include UK, Mexico, India and China. Brands include Pepsi Cola, Mountain Dew, Gatorade, Tropicana, Frito-Lay, Quaker, among others.

Investment Rationale

We rate PEP shares at Buy. In our view, the business is well positioned to deliver consistent high single digit shareholder returns supported by a balance of growth and returning cash to shareholders via dividends and share repurchases.

Stock Data

Average Daily Volume 5,482,445

Quarterly Earnings Estimates

	2023	2024
Q1	1.50A	1.50E
Q2	2.09A	2.23E
Q3	2.25A	2.43E
Q4	1.78A	1.99E

Price objective basis & risk

PepsiCo (PEP)

Our \$210 PO is based on an unchanged 24x CY25 EPS target multiple estimate, which is a premium to non-alcoholic beverage peers and is justified based on our view that PEP is positioned to deliver against its long-term algorithm and returning cash to shareholders via dividends & share repurchases.

Upside risks to our PO: 1) Low to moderate FX headwinds. 2) Rebase initiatives put the business in a better position for growth. 3) Improving volume/price/mix in soft drinks.

Downside risks to our PO: 1) FX becomes a larger headwind than expected. 2) Frito Lay North America experiences a major decline in volumes due to pricing.

Analyst Certification

I, Bryan D. Spillane, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA



US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEE	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
RSTR	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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PepsiCo (PEP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	11	78.57%	Buy	6	54.55%
Hold	0	0.00%	Hold	0	0.00%
Sell	3	21.43%	Sell	1	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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