Consumer Stapes Sector - XLP

HASSAM AL-SHAMLAN
TREVOR BOREN
RYAN ELLINGSON
BRADEN PARSONS
ALYSSA WOOD
Consumer Staples Sector invests in companies that are primarily involved in the development and production of consumer products that cover food and drug retailing, beverages, food products, tobacco, household products, and personal products.

Trading Symbol: **XLP**
Holdings & Weights

- Consumer Staples percentage of S&P 500: **10.86%**
- There are **41** companies in the Consumer Staples Sector
- Top 5 Holdings & Weights:
  - Procter & Gamble Co. 13.68%
  - Phillip Morris International Inc. 10.85%
  - Coca-Cola Co. 10.42%
  - Wal-Mart Stores Inc. 8.91%
  - Kraft Foods Inc. 4.94%
Key Drivers

- Consumer Staples are always in demand, no matter how well the economy is doing.
- Demand is typically at relatively constant level.
- They are not very sensitive to inflation or interest rates.
- GDP is an important macroeconomic driver.
- Price competition is also big in this sector.
Consumer Staples is a defensive sector
Due to the nature of their businesses
Demand for their goods remains relatively constant even during tough times
Things such as food, beverages, toothpaste, and cleaning materials are not easily cut out from consumers purchases

Sector sensitivity breakdown
Beverages: low
Food & Staples Retailing: low
Household Products: low
Tobacco: low
Food Products: low/moderate
Personal Products: moderate
Business Cycle Sensitivity

- Coca Cola $\beta$: 0.44
  - Beverage production. Company’s demand is relatively constant. Business cycle sensitivity is low.

- Archer Daniels Midland $\beta$: 0.72
  - Global food processing and commodity trading. Company’s demand can fluctuate more as commodity prices rise or fall. Business cycle sensitivity is more pronounced

- Sensitivity to business cycle varies by industry
Global Impacts

- Low impact compared to other sectors
  - Many established companies are large enough to sustain themselves through tough times.
  - Their demand tends to be relatively constant

- Less drastic changes in XLP
  - Beta’s tend to be low throughout the industries of the sector
Proctor & Gamble

S&P 500 (^GSPC) - SNP
1,444.49 ↑ 3.82 (0.27%) 4:38PM EDT

Week of Sep 10, 2012: ^GSPC 1465.77  PG 69.16

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Industry Life Cycle

- Food and Staples: Mature
- Household Products: Mature
- Tobacco: Growth
- Beverages: Mature
- Personal Products: Mature
Competitive Landscape

5 Determinants of Competition

1. Bargaining Power of Suppliers = Moderate
   - Low Price Elasticity of Demand
   - Suppliers have little room to raise price or demand
   - Differentiate themselves by taste, appearance, etc.

2. Substitute Products = High
   - No replacement for products themselves
   - Many competing brand choices
3. Rivalry Among Existing Competitors = High
   - High Amount of Substitutes
   - Low switching Costs

4. Bargaining Power For Buyers = Low
   - Buyers purchase small fraction of industries output

5. Threat of Entry = Moderate
   - Brand Loyalty
   - Low Barriers to entry
Valuation Matrixes

P/E ratio

- 15.8
- Low growth, established industries
- A valuation ratio of a company’s current share price compared to its per-share earnings
- Calculated by dividing the market value per share by earnings per share
- The lower the P/E ratio the more attractive the security is
**Valuation Matrixes**

**P/B Ratio**
- 3.88
- Used to compare a stock’s market value to its book value
- Calculated by dividing the current closing price of the stock by the latest quarter’s book value
- Book value = total assets minus intangible assets and liabilities
- A high P/B ratio implies that investors expect management to create more value from a given set of assets
Volatility is a measure of risk based on the standard deviation of the asset return.

- Volatility = Risk
- Higher Volatility = Higher Risk = Higher Required Rate of Return
- Lower Volatility = Lower Risk = Lower Required Rate of Return
- We measure Volatility using beta
Historical Volatility

- Beta = 0.47 (10yr) Yahoo Finance
- Non-Cyclical (Defensive) is a reason for beta being lower than one.
- Therefore, in this sector the lower volatility will lead to a lower required rate of return.

XLP 10 year Performance compared to S&P500
The consumer staples sector has outperformed the market over the past 5 years.
References