

Date: 4/18/2013

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## CIF Sector Recommendation Report (Spring 2013)

Sector Consumer Staples

Review Period April 3rd- April 16th

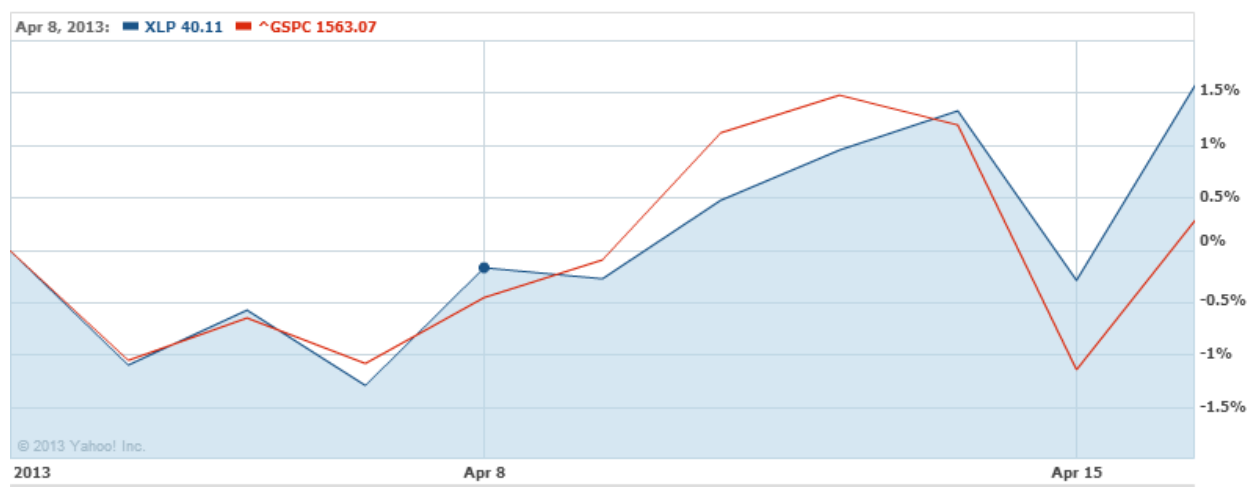
### Section (A) Sector Performance Review

Cougar Investment Fund Sector Review Spreadsheet Template										
CNS										
	Ticker	Current Price	Beg. Price	Stop-loss Price	Target Price	% Cap Gain	# Shares	Current Value	vs. Sector's	S&P 500
S&P 500	\$INX	1574.57	1570.25			0.28%				
Sector ETF	XLP	\$40.81	\$40.18			1.57%	4960	\$202,417.60		1.29%
Current Holdings										
	WMT	\$77.86	\$76.02	\$72.00	\$77.00	2.42%	770	\$59,952.20	0.85%	2.15%
						#DIV/0!		\$0.00	#DIV/0!	#DIV/0!
						#DIV/0!		\$0.00	#DIV/0!	#DIV/0!

As you can see, both the S&P 500 and the Consumer Staples sector (XLP) have both been in the positive. The sector outperformed the S&P by a little over a percent in my review period. The sector is known to be more of a defensive sector. Most of the stocks in the sector have lower beta's, and most companies in the sector produce goods that are needed, so demand will not fall much in a down market. In an up market however, consumers typically don't buy a ton more goods from the consumer staples sector, but use their excess money in the consumer discretionary sector. With uncertainty in the market currently, there are a lot of people who say the XLP is the most attractive ETF by far.

We did own Wal-Mart for about 6 days in my review period and then sold it. Wal-Mart is actually a stock we owned since last semester. We sold it at its target price and ended up making a good profit on it. The stock started the review period at \$76.02. By April 9<sup>th</sup>, we sold it at a price that was actually \$.86 higher than the target price which was good.

There was not a lot of headline news for the sector. Wal-Mart had an executive leave stating that the sales were a total disaster. Some of the companies issued their dividends over this period, but overall no big news. Below is the stock price chart of the S&P vs the Consumer Staples sector.



## **Biggest Gainers**

The biggest gainers for the Consumer Staples sector included Monster (MNST), which jumped 16% in the review period, and Rite Aid (RAD), which jumped 23% in the review period. It is very unfortunate that I recommended a no buy on MNST, because we would have made lots of money, but their jump was definitely not highly expected. There are two main reasons the stock went up. When Warren Buffet and his company bought out Heinz, a lot of consumer staples stocks jumped. Monster was one that jumped a lot. People were questioning the fact that Monster may be bought out and many people saw this as a good sign. Also investors saw the buyback of shares Monster was doing, and this sent a bullish sentiment. Earnings and revenue actually missed and did not affect the stock.

Rite Aid was the biggest winner at 23%. The main reason for this is the earnings estimate was blown out of the water. Rite Aid was expected to have a February earnings of -.02 per share. The actual earnings were .13. This was a very bullish sign for investors and really caused a jump that has continued.

### **Biggest Losers**

The biggest losers for the consumer Staple sector included Herbalife (HLF), which was down about 6%, and Tyson (TSN) which was down about 5 %. Herbalife dropped due the one of the big 4 accounting firms KPMG deciding to quit as their auditor. The reason they quit was due to insider trading allegations that were made against Herbalife. They actually beat earnings and revenue expectations slightly which had nothing to do with the price drop. Tyson dropped potentially due to lack of chicken sales in china and the bird flu. The revenue and earnings didn't play a factor. Earnings were up a lot and revenue slightly missed but this is not the reason for the drop.

### **Top Holdings**

The Consumer Staples sector top holdings are Procter and Gamble and Coca Cola Co. Procter and Gamble (PG) is about 13.9% of the XLP, while Coca Cola (KO) is about 10.28% of the XLP. Procter and Gamble had very little news and during the 2 week period, the stock price increased about 1.5%. They actually announced an increase in their dividend just after my review period. Coca Cola did have some news at the later end of my review period. Coca Cola jumped just over 4%, mainly all in one day. On April 15<sup>th</sup> they jumped about \$2. Their earnings and revenue estimates were both exceeded which caused the spike.

### **Short Term Outlook**

The short term outlook on the consumer staples sector is good. The sector attracts a lot of people for many reasons. First off, the low beta of most of the stocks is a plus, especially if the market does take a fall. Second, dividend yields are typically high in this sector, and have been increasing for most companies which are a bullish sign. There are a few companies that will

release earnings shortly. Proctor and Gamble is one of those companies and they will announce their earnings on the 24<sup>th</sup> of April. Overall, this sector is great. It has outperformed the market in these last two weeks, and has also made the CIF a lot of money since the beginning of the first semester.

## **Section (B) Sector Holding Updates**

<b>Company #1: <u>Company Name and Ticker</u></b>
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**Date Recommended: 12/4/2013**

**Date Re-evaluated: 4/9/2013**

### **Company Update**

Not a whole lot has happened with the company over my review period. Over the entire period, the stock jumped a little over 3%. It jumped 2.42% before we decided to sell it. Wal-Mart had an executive leave stating that the sales were a total disaster. In the last consumer staples sector presentation, it was noted that an executive stated those claims, but it was over this review period that he actually resigned. There were no earnings announcements for Wal-Mart in this review period.

In there last month, analyst recommendations have becoming slightly more bullish, with one more analyst recommending a buy. In the last week there have been two total estimate revisions of revenue, and two total estimate revisions for earnings. For the year ending in January 2014, one analyst revised both revenue and earnings downward. For the year ending in January 2015, one analyst has up revised both his revenue and earnings estimates.

Another headline for Wal-Mart over my review period was that Wal-Mart launched a \$5 billion four part bond issue. The company did a similar structure in 2011. “Wal-Mart is planning to sell \$1 billion of three-year notes at Treasuries plus 30 basis points, \$1.25 billion of five-year notes at Treasuries plus 45bp, \$1.75 billion of 10-year notes at Treasuries plus 82bp and \$1 billion of 30-year notes at plus 102bp. The shorter tranches were slightly tighter than initial price thoughts. Proceeds of the deal, led by active joint books Barclays, Citigroup and Morgan Stanley, will be used for general corporate purposes. That deal consisted of a \$1 billion 1.625%

three-year at plus 40bp, a \$1 billion 2.8% five-year at plus 57bp, a \$1 billion 4.25% 10-year at plus 75bp, and a \$2 billion 5.625% 30-year at plus 110bp (reuters.com).”

### **Relative Performance**

Wal-Mart was the only holding we had during my review period, and we did sell it in the beginning of my review period. Wal-Mart did outperform the sector by about 2% and the market by about 3% over the entire review period. After I noticed this, I decided to look at Wal-Mart’s performance against competition. I noticed that Amazon.com also jumped about 3.5% in the two week review period as well. Below are price charts showing performance in comparison with the consumer staples sector, and the market as a whole.

### **Three Month Chart**



As you can see, in the last three months, the consumer staples sector has outperformed the market by a large amount. Both Wal-Mart and the sector went up over 12%, while the market only went up around 4%. During this period, the CIF made a good return on the XLP sector, as well as the 770 shares of Wal-Mart we owned.

### **1 Year Stock Chart**



Above is the one year stock chart. As you can see, Wal-Mart again has outperformed the market. In this chart, Wal-Mart has gone up about 25%, whereas the sector went up about 20%, and the market went up about 12%. Overall the market and economy have done fairly well in the last year, and this stock chart clearly shows that.

### Valuations Analysis

**Original Analysis:** Below is the valuation multiples of Wal-Mart when it was first recommended in December of 2012.

<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	14.30	495.93	17.13
P/S (TTM)	0.50	0.71	1.38
P/B (MRQ)	3.16	4.28	1.54
P/CF (TTM)	9.09	16.27	9.43
Dividend Yield	2.29	1.35	0.83
Total Debt/Equity (MRQ)	77.76	69.26	58.15
Net Profit Margin (TTM)	3.73	3.01	7.85
ROA (TTM)	8.64	6.01	8.69
ROE (TTM)	23.52	15.17	13.99

**Re-evaluation Analysis:** Below is the ratio multiples as of now.

<b><u>Ratio Analysis</u></b>	<b><u>Company</u></b>	<b><u>Industry</u></b>	<b><u>Sector</u></b>
P/E (TTM)	15.59	16.22	25.39
P/S (TTM)	.55	.66	1.28
P/B (MRQ)	3.40	2.23	1.46
P/CF (TTM)	9.82	7.62	8.54
Dividend Yield	2.4	1.78	.88
Total Debt/Equity (MRQ)	70.91	46.31	52.93
Net Profit Margin (TTM)	3.78	3.61	7.88
ROA (TTM)	8.96	5.97	8.66
ROE (TTM)	23.02	12.19	13.51

As you can see, the ratios for Wal-Mart have not changed significantly since the stock was recommended over 4 months ago. However, there are some changes that can be noticed, especially in the industries ratios. All the industry ratios are more favorable than they were 4 months ago besides the ROE and ROA. As you can see overall though, Wal-Mart is still more favorable in nearly every category (except total debt to equity and P/CF).

### **Historical Surprises**

Below I have put the historical surprises charts of Wal-Mart. The first one is the chart that was presented in December. The second one is the current historical surprises chart as of now.

## Original Analysis (12/4/2012)

### HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Oct-12	114,929.00	113,929.00	999.59	0.87
Quarter Ending Jul-12	115,751.00	114,296.00	1,455.39	1.26
Quarter Ending Apr-12	110,542.00	113,018.00	2,475.62	2.24
Quarter Ending Jan-12	124,206.00	123,169.00	1,037.37	0.84
Quarter Ending Oct-11	108,249.00	110,226.00	1,976.55	1.83
<b>Earnings (per share)</b>				
Quarter Ending Oct-12	1.07	1.08	0.01	0.90
Quarter Ending Jul-12	1.17	1.18	0.01	0.62
Quarter Ending Apr-12	1.04	1.09	0.05	4.55
Quarter Ending Jan-12	1.45	1.44	0.01	1.02

## Re-evaluation Analysis (4/19/2012)

### HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Jan-13	128,770.00	127,919.00	850.83	0.66
Quarter Ending Oct-12	114,929.00	113,929.00	999.59	0.87
Quarter Ending Jul-12	115,751.00	114,296.00	1,455.39	1.26
Quarter Ending Apr-12	110,542.00	113,018.00	2,475.62	2.24
Quarter Ending Jan-12	124,206.00	123,169.00	1,037.37	0.84
<b>Earnings (per share)</b>				
Quarter Ending Jan-13	1.57	1.67	0.10	6.40
Quarter Ending Oct-12	1.07	1.08	0.01	0.90
Quarter Ending Jul-12	1.17	1.18	0.01	0.62
Quarter Ending Apr-12	1.04	1.09	0.05	4.55
Quarter Ending Jan-12	1.45	1.44	0.01	1.02



As you can see in the above charts of you compare them, there is one new earnings report that has come out since the date Wal-Mart was recommended back in December. It seems as though revenue missed in the January quarter report by a slight amount. Earnings exceeded analyst expectations for this quarter however. Earnings estimates for the quarter ending in January of 2013 were 1.57. Actual earnings came out to be 1.67, which is a significant difference and caused the stock to jump in price.

### Consensus Estimates

#### Original Analysis:

#### **CONSENSUS ESTIMATES ANALYSIS**

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
<b>SALES (in millions)</b>					
Year Ending Jan-12	22	447,057.00	450,133.00	436,885.00	--
Year Ending Jan-13	21	470,955.00	483,840.00	468,372.00	469,627.00
Year Ending Jan-14	22	497,804.00	520,128.00	483,534.00	495,522.00
<b>Earnings (per share)</b>					
Year Ending Jan-12	21	4.49	4.53	4.47	--
Year Ending Jan-13	28	4.92	4.97	4.89	4.91
Year Ending Jan-14	29	5.38	5.50	5.19	5.43
LT Growth Rate (%)	8	9.40	11.00	8.10	9.64

## Re-Evaluation Analysis

Sales and Profit Figures in US Dollar (USD)  
Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
<b>SALES (in millions)</b>					
Quarter Ending Apr-13	16	116,428.00	118,642.00	114,591.00	115,458.00
Quarter Ending Jul-13	15	119,733.00	120,993.00	118,162.00	120,340.00
Year Ending Jan-13	20	470,012.00	471,624.00	468,372.00	--
Year Ending Jan-14	22	492,608.00	513,026.00	485,211.00	493,110.00
Year Ending Jan-15	19	516,843.00	555,888.00	504,209.00	483,166.00
<b>Earnings (per share)</b>					
Quarter Ending Apr-13	23	1.15	1.17	1.11	1.14
Quarter Ending Jul-13	23	1.29	1.33	1.24	1.29
Year Ending Jan-13	28	4.92	4.96	4.87	--
Year Ending Jan-14	29	5.34	5.46	5.21	5.28
Year Ending Jan-15	25	5.88	6.18	5.64	5.84
LT Growth Rate (%)	5	9.04	10.00	8.00	8.73

If you compare and analyze both tables above, you will notice slight differences. The top chart is the chart from when the stock was recommended 4 months ago. The bottom chart is the current consensus estimates analysis. For revenue, for the years ending in 2013 and 2014, revenue estimates have gone down slightly. This could be due to the revenue miss in the last quarter. For the earnings, the year ending in 2013 did not change, but the year ending in 2014 went down very minimally since the actual stock recommendation 4 months ago. The long term growth rate has also decreased slightly, which could be associated to less analysts actually giving a long term growth rate.

## Estimate Revision Analysis

Original Analysis (12/4/2012)

### ESTIMATES REVISIONS SUMMARY

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Year Ending Jan-12	--	--	--	--
Year Ending Jan-13	0	1	3	14
Year Ending Jan-14	0	1	6	11
<b>Earnings</b>				
Year Ending Jan-12	--	--	--	--
Year Ending Jan-13	0	1	9	9
Year Ending Jan-14	0	1	5	7

## Re-Evaluation Analysis (4/19/2013)

### ESTIMATES REVISIONS SUMMARY

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Apr-13	0	0	0	0
Quarter Ending Jul-13	0	0	0	0
Year Ending Jan-13	--	--	--	--
Year Ending Jan-14	0	1	0	1
Year Ending Jan-15	1	0	1	0
<b>Earnings</b>				
Quarter Ending Apr-13	0	0	0	0
Quarter Ending Jul-13	0	0	0	0
Year Ending Jan-13	--	--	--	--
Year Ending Jan-14	0	1	0	1
Year Ending Jan-15	1	0	1	0

Since these two charts are so spread apart as far as time is concerned (precisely 4 months) it is somewhat tough to compare. Revisions in December were much more abundant, and I suspect the reason for this is because they were reaching their year end and analysts were making last minute revisions. In the recent chart, there are minimal revisions. There is one down revision for both earnings and revenue for the year ending in 2014, and there is an up revision in both the revenue and earnings for the year ending in 2015. Overall this is somewhat tough to compare, but there are significant differences.

## Analysts' Recommendations

### Original Analysis (12/4/2012)

#### ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	9	9	8	8
(2) OUTPERFORM	3	3	3	3
(3) HOLD	14	14	16	17
(4) UNDERPERFORM	1	0	1	1
(5) SELL	0	1	0	0
No Opinion	0	0	0	0
Mean Rating	2.26	2.30	2.36	2.38

### Re-Evaluation Analysis (4/19/2012)

#### ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	9	8	9	9
(2) OUTPERFORM	3	3	2	3
(3) HOLD	15	15	14	13
(4) UNDERPERFORM	1	1	1	1
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.29	2.33	2.27	2.23

If you analyze both tables above, there is not a huge change in the analyst recommendations between December and now. Overall, analysts are about equally as bullish about Wal-Mart from now and 6 months ago. Analyst recommendations change very slightly every month, but there is no significant change to the mean rating. Overall, Wal-Mart is expected to outperform the market.

### Section (C) Sector Recommendations

Overall, I am very bullish on the consumer staples sector. The beta is low so the systematic risk is low. Also, dividend yields are high and continuously growing for the stocks in this sector. Most analysts will agree on these statements. There is some high unsystematic risk involved with some of the stocks, but overall I think the sector is a fairly low risk sector that produces great returns. If the stock market does take off sometime, the stocks might not surge as high as the market, but there is no doubt in my mind that a profit will be made.

As far as a recommendation, I say we hold all shares in the XLP. The summer is near and we as students will not be following the CIF as closely. In this sector I don't think we will have to worry about steep price drop-offs but instead minimal price declines or steady price increases.

### Section (D) Sector Holding Recommendations

Again, there are no holdings within the consumer staples sector.

Provide your recommendations in the following table

Company Name	Ticker Symbol	Date Recommended	Date Re-evaluated	Recommendation (Explain Why)		
				Sell	Adjust "Target Price"	Adjust "Stop-loss Price"
N/A						


### **References:**

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