

Date: 10/27/12

Analyst: Ryan Ellingsen

## CIF Sector Recommendation Report (Fall 2012)

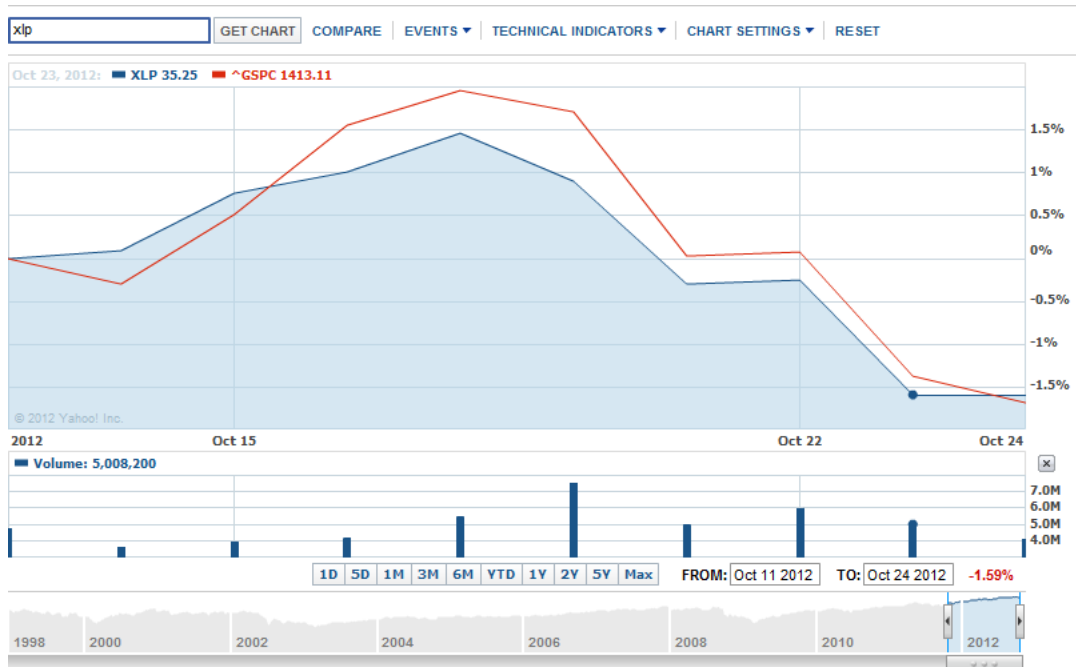
Sector: Consumer Staples

Review Period: October 11<sup>th</sup>-October 24th

### Section (A) Sector Performance Review

#### Consumer Staples

	Ticker	Current Price	Beg. Price	Stop- loss Price	Target Price	% Cap Gain	# Shares	Current Value	vs. Sector	vs. S&P 500
S&P 500	<b>\$INX</b>	1408.75	1432.56			-1.66%				
Sector ETF	<b>XLP</b>	\$35.25	\$35.90			-1.81%	3690	\$130,072.50		-0.15%
Current Holdings										
Pepsico Inc.	<b>PEP</b>	\$68.40	\$70.29	\$75.69	\$62.00	-2.69%	640	\$43,776.00	-0.88%	-1.03%



Compared with the SP500, PepsiCo has had some fluctuations, most recent date they were slightly outperforming the SP500. However, in the dates around October 18<sup>th</sup>, they were underperforming the SP500 by quite a bit.

Some sector level news, Monster Energy is facing a large lawsuit regarding a 14-year old girl who died from cardiac arrest that was attributed to caffeine toxicity from their energy drinks. Also, Coca-Cola significantly increased its investment in Vietnam to take advantage of emerging markets, adding an additional \$300 million in investment. This is also part of an effort to continue to establish market share over one of our holdings and one of their biggest competitors, PepsiCo.

PepsiCo is our only holding for Consumer Staples. Overall, it hasn't shown any drastic changes in comparison with our last sector report; however their stock price is now beginning to rise after the dramatic drop in price after our initial purchase. I think one of the big reasons is that recently, they have formed a strategic alliance with Suntory in Vietnam

Because consumer staples being such a defensive sector, I believe the short-term outlook is that it will continue to stay steady with the SP500, with very marginal changes in price.

## Section (B) Sector Holding Updates

<b>Company #1: <u>Pepsico Inc. (PEP)</u></b>
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**Date Recommended: 10/16/2012**

**Date Re-evaluated: 10/30/2012**

### **Company Update**

According to Yahoo Finance, PepsiCo's Q3 results showed that PepsiCo missed slightly on their revenues, but did beat expectations for earnings per share. Overall, their gross margins have gone up, while operating margins and net margins remained relatively stable. They did have a volume decline in soda sales of 1%, which they attributed to Pepsi's unions not working on Labor Day which I thought was interesting. Overall, they have been showing signs of improvement, which I believe can partially be attributed to their recent international expansion into China and Thailand. Another big event that has happened during my revaluation period is that they sold 51 percent of their stake in Vietnam beverage business to Suntory Holdings Ltd. After the release of their Q3 results, their net income is down 5%, which the New York Times attributes to spending large amounts of money on the development of new products and advertising their popular brands.

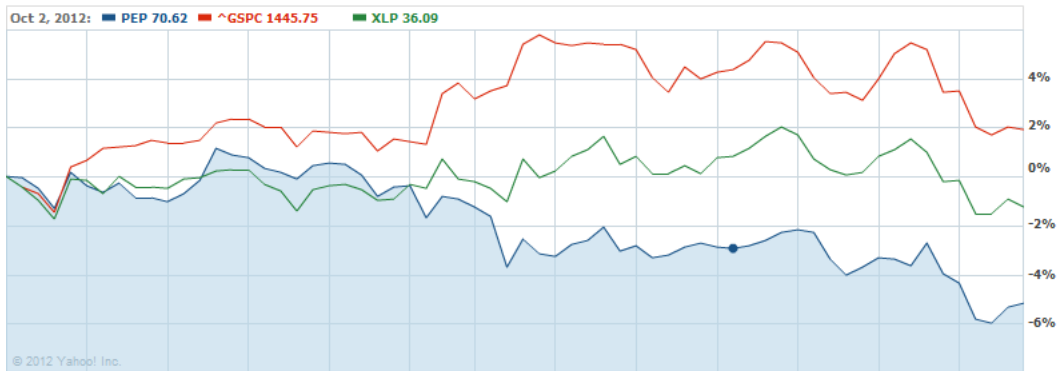
### **Relative Performance**

Over the two-week period, PepsiCo has been underperforming both the SP500 and the XLP ETF. Their revenues have been down, largely because to their expansion into international markets and also recent research and development of new products. They are predicted to bounce back in the Q4, and these values are very similar to other companies within their sector, so I don't think these are values that should be viewed as extreme or indicators of the company's current financial standing

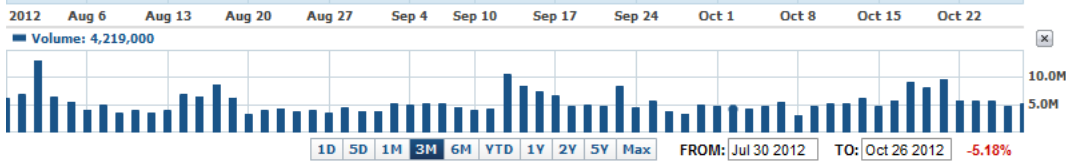
### **Price Charts**

Enter name(s) or symbol(s) GET CHART COMPARE EVENTS TECHNICAL INDICATORS CHART SETTINGS RESET

Oct 2, 2012: ■ PEP 70.62 ■ ^GSPC 1445.75 ■ XLP 36.09



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1D 5D 1M 3M 6M YTD 1Y 2Y 5Y Max FROM: Jul 30 2012 TO: Oct 26 2012 -5.18%





## Valuations Analysis

### Original Analysis

Ratio Analysis	Company	Industry	Sector
P/E (TTM)	18.51	27.35	40.39
P/S (TTM)	1.64	1.38	3.66
P/B (MRQ)	5.32	3.05	2.05
P/CF (TTM)	12.44	22.23	23.11

### Re-evaluation Analysis

Ratio Analysis	Company	Industry	Sector
P/E (TTM)	18.38	32.07	39.49
P/S (TTM)	1.62	1.28	3.68
P/B (MRQ)	4.96	2.91	2.18
P/CF (TTM)	12.35	11.63	22.78

Overall, it appears that the values haven't fluctuated too much in comparison with the original analysis. One ratio that changed that really stands out to me are that the industry's price to cash flows has decreased significantly, which signals an increase in the beverage industry's amount of cash flows.

## Historical Surprises

### Original Analysis

#### 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 Jun-12	16,502.10	16,458.00	44.11	0.27
Quarter Ending Mar-12	12,339.70	12,428.00	88.26	0.72
Quarter Ending Dec-11	19,913.20	19,535.00	378.22	1.90
Quarter Ending Sep-11	17,178.60	17,582.00	403.36	2.35
Quarter Ending Jun-11	16,400.20	16,827.00	426.82	2.60
<b>Earnings (per share)</b>				
Quarter Ending Jun-12	1.09	1.12	0.03	2.41
Quarter Ending Mar-12	0.67	0.69	0.02	3.20
Quarter Ending Dec-11	1.12	1.15	0.02	2.22
Quarter Ending Sep-11	1.30	1.31	0.01	1.05
Quarter Ending Jun-11	1.21	1.21	0.00	0.22

### Re-evaluation Analysis

#### 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 Sep-12	16,901.90	16,652.00	249.89	1.48
Quarter Ending Jun-12	16,502.10	16,458.00	44.11	0.27
Quarter Ending Mar-12	12,339.70	12,428.00	88.26	0.72
Quarter Ending Dec-11	19,913.20	19,535.00	378.22	1.90
Quarter Ending Sep-11	17,178.60	17,582.00	403.36	2.35
<b>Earnings (per share)</b>				
Quarter Ending Sep-12	1.16	1.20	0.04	3.51

Quarter Ending Jun-12	1.09	1.12	0.03	2.41
Quarter Ending Mar-12	0.67	0.69	0.02	3.20
Quarter Ending Dec-11	1.12	1.15	0.02	2.22
Quarter Ending Sep-11	1.30	1.31	0.01	1.05

The surprise percentage values have fluctuated a lot in comparison with the original analysis, with no visible trends in these values. Actual earnings per share values beat their estimates which was similar to the original analysis, whereas revenues were slightly below their estimates which were also similar to the original analysis.

## Consensus Estimates

### Original Analysis

Sales (in millions)	# analysts	mean	high	Diff. mean & high	low	Diff. mean & low	1-year ago
Quarter Ending Dec-12	11	19,729.50	20,456.00	3.55%	18,990.00	-3.89%	21,078.40
Quarter Ending Mar-13	6	12,692.80	12,854.10	1.25%	12,529.00	-1.31%	13,094.10
Year Ending Dec-12	15	65,679.20	66,513.00	1.25%	64,464.00	-1.89%	68,602.70
Year Ending Dec-13	15	68,385.80	69,956.50	2.25%	67,366.70	-1.51%	71,955.90
<b>Earnings (per share)</b>							
Quarter Ending Dec-12	13	1.09	1.13	3.54%	1.05	-3.81%	1.22
Quarter Ending Mar-13	8	0.72	0.75	4.00%	0.7	-2.86%	0.81
Year Ending Dec-12	17	4.06	4.09	0.73%	4.05	-0.25%	4.71
Year Ending Dec-13	18	4.41	4.48	1.56%	4.32	-2.08%	5.11
LT Growth Rate (%)	7	6.21	10.1	38.51%	2.4	-158.75%	9.18

## Re-Evaluation Analysis

### 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>					
Quarter Ending Dec-12	11	19,612.60	20,025.20	18,575.00	20,801.70
Quarter Ending Mar-13	6	12,746.70	12,854.10	12,560.90	13,005.70
Year Ending Dec-12	16	65,319.00	65,706.00	64,605.00	68,636.70

Year Ending Dec-13	16	68,283.80	69,328.50	67,747.00	72,180.90
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#### Earnings (per share)

Quarter Ending Dec-12	14	1.06	1.09	1.04	1.21
Quarter Ending Mar-13	8	0.73	0.75	0.69	0.80
Year Ending Dec-12	17	4.06	4.09	4.05	4.66
Year Ending Dec-13	18	4.41	4.50	4.31	5.08
LT Growth Rate (%)	6	6.18	10.10	2.40	9.18

It appears that the mean growth rate has gone down a small 0.03% compared to our original analysis, while revenues are expected to be lower year ending Dec-13 than year ending Dec-12, which is similar to our original analysis, except with slightly lower expected values. As for earnings per share, they have been slightly lower than the original analysis all across the board.

#### Estimate Revision Analysis

##### Original Analysis (10/16/2012)

ESTIMATES REVISIONS SUMMARY	Last Week		Last 4 Weeks	
Number Of Revisions:	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Dec-12	1	2	1	3
Quarter Ending Mar-13	1	0	1	2
Year Ending Dec-12	1	2	2	3
Year Ending Dec-13	1	2	2	3
<b>Earnings</b>				
Quarter Ending Dec-12	1	0	3	0
Quarter Ending Mar-13	0	0	0	0
Year Ending Dec-12	1	1	1	2
Year Ending Dec-13	0	2	3	2

#### Re-Evaluation Analysis

##### ESTIMATES REVISIONS SUMMARY



Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Dec-12	0	0	6	5
Quarter Ending Mar-13	0	0	4	2
Year Ending Dec-12	0	1	6	9
Year Ending Dec-13	0	1	7	7
<b>Earnings</b>				
Quarter Ending Dec-12	0	0	1	12
Quarter Ending Mar-13	0	0	3	1
Year Ending Dec-12	0	0	6	1
Year Ending Dec-13	0	0	5	5

Overall, it appears that last week's number of revisions in terms of both revenue and earnings have gone down in comparison to the original analysis's values. However, when looking at the last 4 weeks number of revisions, it looks like there has been an increase in both the revenues and earnings number of revisions, with more of them being down revisions.

### **Analysts' Recommendations**

#### **Original Analysis**

<b>ANALYST RECOMMENDATIONS AND REVISIONS</b>	<b>Current</b>	<b>1 Month Ago</b>	<b>2 Month Ago</b>	<b>3 Month Ago</b>
<b>1-5 Linear Scale</b>				
(1) BUY	5	5	5	5
(2) OUTPERFORM	6	6	6	7
(3) HOLD	7	7	7	6
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.11	2.11	2.11	2.06

## Re-Evaluation Analysis

<b>1-5 Linear Scale</b>	<b>Current</b>	<b>1 Month Ago</b>	<b>2 Month Ago</b>	<b>3 Month Ago</b>
(1) BUY	5	5	5	5
(2) OUTPERFORM	6	6	6	6
(3) HOLD	7	7	7	7
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.11	2.11	2.11	2.11

There are no changes in terms of analyst recommendations

## Section (C) Sector Recommendations

I believe CIF should continue to own its 3,690 shares of XLP sector holdings, despite PepsiCo's stock price dropping from its initial purchased price. In the past

couple days; PepsiCo has started to rise up again, which is a very positive indicator. I have very bullish opinions on the consumer staples sector; I believe because of their very stable nature, that they are good stocks to invest in because they hedge portfolio risk. PepsiCo is still one of the largest and well established beverage distributors in the world, with very stable and predictable values, and also with low beta therefore low risk.

## Section (D) Sector Holding Recommendations

Based on your analysis, are there stocks CIF currently owns from your sector you would recommend to:

1. Sell and why?

I think we should keep our holding of PEP in the portfolio. Although during my re-evaluation period the stock has been underperforming the sector and the SP500, the past couple days it has been outperforming both its sector and SP500

2. Adjust “target price” and why? If you recommend an adjustment, you must suggest a new “target price”

I think we should keep the target price the same because I have not heard any new information that would make me change my expectations about PepsiCo

3. Adjust “stop-loss price” and why? If you recommend an adjustment, you must suggest a new “stop-loss price”

I also think we should not adjust the stop-loss price for the same reason that I have not seen any new information that would make me change my opinions on the stock.

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”
PepsiCo Inc.	PEP	10/16/2012	10/24/2012	No	No Change	No Change