

# CIF Sector Update Report (Spring 2014)

Sector: Consumer Staples

Analyst: Trevor Russell

Presentation Date: March 26<sup>th</sup>, 2014

Review Period:           Start Date: February 24<sup>th</sup>, 2014

End Date: March 19<sup>th</sup>, 2014

## Section (A) Sector Performance Review

(A-1) Sector Performance Relative to SP500

Copy/paste "*Sector Performance Review Spreadsheet*" (the entire spreadsheet) *here*

<b>Cougar Investment Fund Sector Performance Review Spreadsheet Template</b>										
Please download and save this template to your own storage device You only need to input values to cells highlighted in "yellow" The rest of the spreadsheet is calculated automatically Please read "Sector Update Guidelines" document carefully										
<b>CNS</b>	Consumer Staples									
	<b>Ticker</b>	<b>Current Price</b>	<b>Beg. Price</b>	<b>Stop-loss Price</b>	<b>Target Price</b>	<b>% Capital Gain</b>	<b># Shares</b>	<b>Current Value</b>	<b>vs. Sector</b>	<b>vs. S&amp;P 500</b>
S&P 500	\$INX	1860.77	1836.25			1.34%				
Sector ETF	XLP	\$42.59	\$41.60			2.38%	4180	\$178,026.20		1.04%
<b>Current Holdings</b>										
	KO	\$38.14	\$37.18	\$34.66	\$43.14	2.58%	800	\$30,512.00	0.20%	1.25%



**How did the sector perform relative to the broad market (SP500) during the review period? What might have caused the out-/under-performance of the sector in relation to the broad market? You should weigh in macro, sector/industry, and company-specific factors that might have contributed to the out-/under-performance**

The Consumer Staples Sector generally followed the ups and downs of the S&P 500 for the previous month. The big difference is around March 13<sup>th</sup> where the S&P 500 took a drop while the staples sector stayed high. The S&P500 took this hit as commodity shares slumped with copper and oil prices amid concern over the Chinese economy. This is generally because of the way the staples sector works, with little abrupt changes and the general trend of slow and steady growth. While the North American and European markets are saturated and mature with little left in terms of exponential growth, there are still untapped markets that staples could greatly benefit from investing into. These markets include but are not limited to Brazil, China, Russia, Mexico, India, and Southeast Asia. These promising markets have led to some positive looks to companies that are actively looking to invest into these markets.

**What are some of the noteworthy news/events from the sector during the review period? The news/events can be company specific, or for the industry/sector**

Johnson & Johnson recently sold off their K-Y brand to Reckitt Benckiser which is a leading intimate lubricant brand that is sold in over 50 countries and has global annual sales of over

\$100 million. This solidifies the idea that J&J has shifted their focus away from consumer products and has really moved to pharmaceutical business.

### (A-2) Big Sector Movers

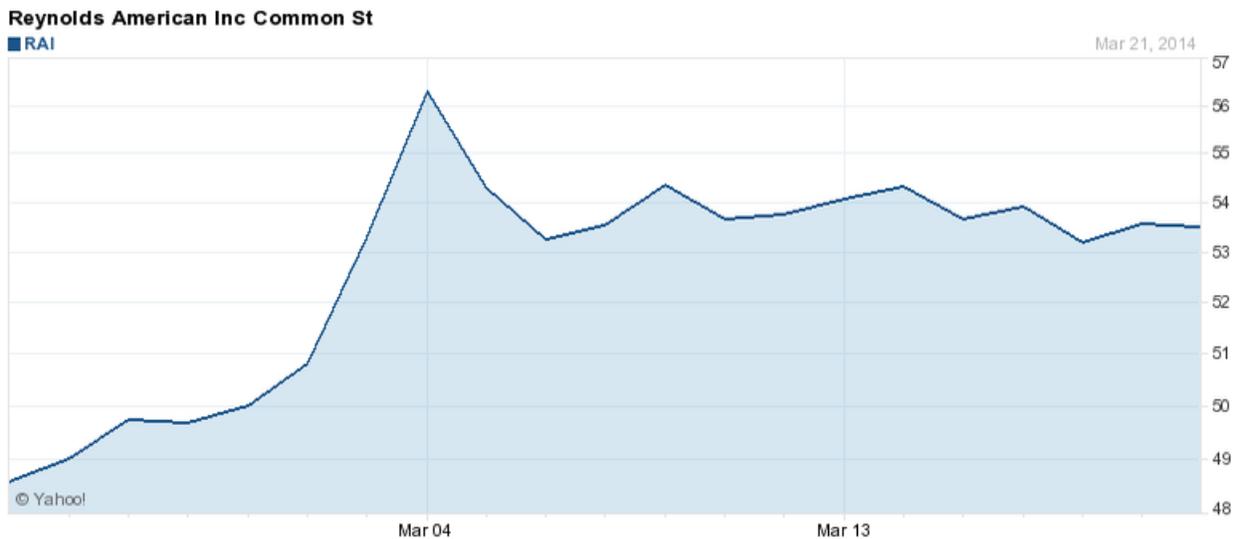
Identify two largest sector gainers and losers from recent 1 month. Copy/paste a 1 month price chart of the two largest gainers and losers *here*.

Biggest Gainers (1-month):

Kroger Co (KR) +4.37 (+11.04%)

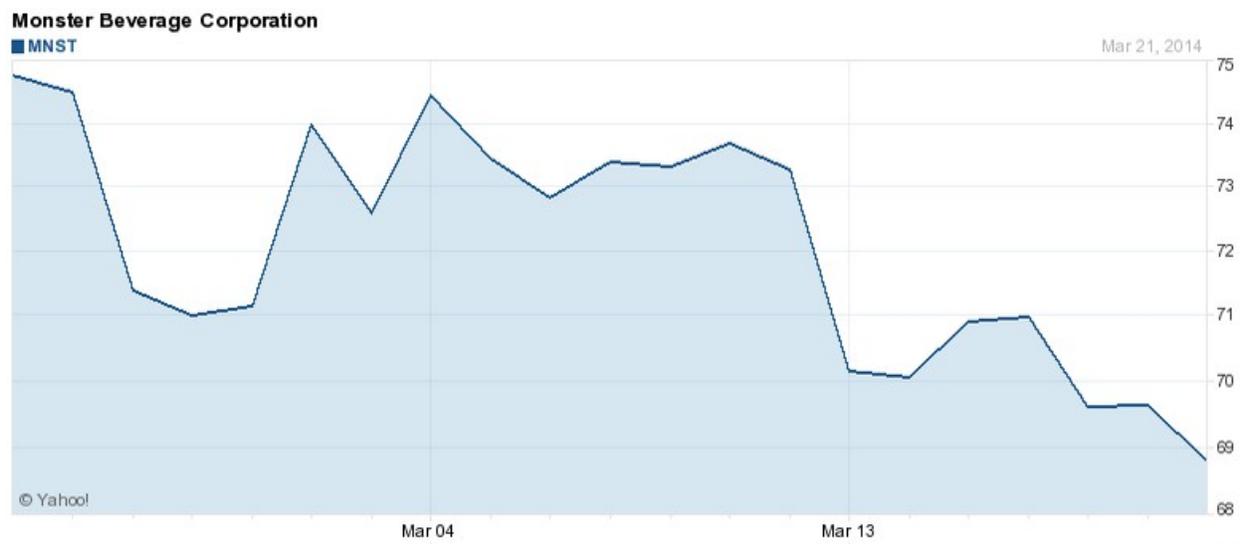


Reynolds American Inc. (RAI) +4.92 (+10.14%)



Biggest Losers (1-month):

Monster Beverage Corp (MNST) -5.96 (-7.97%)



Avon Products (AVP) -0.48 (-3.17%)



**What might have contributed to big price moves in the period examined (recent 1 month) of each of the named gainers/losers?**

**Kroger Co:** Kroger, the biggest U.S. supermarket operator, recently forecast higher-than-expected full-year profit as it is seeing the benefits from the acquisition of southeast-focused grocer Harris Teeter.

**Reynolds American Inc.:** Tobacco stocks lit up with increasing speculation of potential mergers among the industry's big players.

**Monster Beverage Corp:** The only negative news regarding Monster is that it is speculated that its stock price was trading at an artificially high rate and because of that it has finally been coming back down to earth.

**Avon Products:** Although Avon's drop has been a little over 3%, because their stock price is only trading around \$15 the drop over the past month has only been about \$0.50.

Identify two largest sector gainers and losers of during recent 3 month. Copy/paste a 3 month price chart of the two largest gainers and losers *here*.

Biggest Gainers (3-months):

Beam Inc (BEAM) +15.84 (+23.52%)



Tyson Foods Inc (TSN) +9.16 (+27.58%)



Biggest Losers (3-months):

ConAgra Foods Inc (CAG) -3.47 (-10.35%)



Avon Products (AVP) -2.63 (-15.19%)



**What might have contributed to big price moves in the period examined (recent 3 month) for each of the named gainers/losers?**

**Beam Inc.:** When news that Beam would be acquired by the Japanese food and drink maker, Suntory Holdings LTD., their stock jump a massive amount. When the deal is complete, they will have formed the third-largest premium spirits company. The two are already distribution partners, so the acquisition should go over very smoothly and the deal should be finalized in the second quarter of 2014.

**Tyson Foods Inc.:** Surely not the major cause of the recent upward trend but something that could have aided was the acquisition of the assets of Bosco's Pizza Co. on January 18<sup>th</sup>.

**ConAgra Foods Inc.:** February 11<sup>th</sup> ConAgra lowered their fiscal year 2014 earnings per share guidance.

**Avon Products:** Investors may be realizing how much the business model relies on the size and capabilities of Avon's sales representatives. Last year their fleet size dropped by a good 15%, spelling trouble for the future of the company.

### (A-3) Two Largest Stocks in the Sector

Identify two stocks with the largest weight in the sector ETF. Copy/paste a 1 month price chart to include the two stocks, sector ETF and SP500 *here*.

Procter & Gamble (PG) 13.2% and Coca-Cola Co (KO) 9.11%



**Highlight noteworthy news, announcements, or events relevant to the two stocks.**

Some news that occurred was that back on February 21<sup>st</sup> Coke signed letters of intent for two new bottling partners, this may have occurred slightly before the review period began, but still seemed relevant since it was so near the start date.

David Winters, CEO and founder of Wintergreen Advisers recently sent letters to Coke's upper management criticizing the company's compensation plan for this year, saying that their 2014 proposed equity plan will erode the per-share value of Coca-Cola shares.

### (A-4) Short-term (up to Three Months) Outlook of the Sector

**What is your short-term (up to three months) outlook of the sector? Provide arguments in support of your view.**

The near-term outlook for the consumer staples sector is tough to determine at this moment in time as staples are looking more towards the future as the beginning of the year has not been the best for them. Demand for consumer staples remains relatively constant throughout all of

the economic cycle but there has been sluggish growth in developed markets. This has been caused by market saturation, stagnant consumer disposable incomes due to increases in rising gas prices, delayed tax refunds, and higher overall payroll taxes, increased competitive activities. This has lead companies to look outward to developing markets in other countries, but any fruits from those labors won't be seen for some time to come. Many large companies have been focusing on cost controls, share buybacks, and acquisitions.

## Section (B) Sector Holding Updates

<b>Company #1: <u>Company Name and Ticker</u></b>
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**Date Recommended:** March 7<sup>th</sup>, 2014

**Date Re-evaluated:** March 26<sup>th</sup>, 2014

### **(B-1) Company Updates and Stock Performance**

#### **Company Update**

Some news that occurred was that back on February 21<sup>st</sup> Coke signed letters of intent for two new bottling partners, this may have occurred slightly before the review period began, but still seemed relevant since it was so near the start date.

David Winters, CEO and founder of Wintergreen Advisers recently sent letters to Coke's upper management criticizing the company's compensation plan for this year, saying that their 2014 proposed equity plan will erode the per-share value of Coca-Cola shares.

There was not much in terms of significant news within the Coca-Cola Company within the review dates, but then again major moves will not always happen within less than a month.

#### **Relative Performance**

**Review and comment on performance of Stock #1 over the review period relative to the sector ETF and SP500.**

Over the review period the price of Coca-Cola's stock has increased by \$0.96. While a very small increase, at least it is indeed positive. Its capital gain was 2.58% which was 0.20% better than the Consumer Staples sector which was at 2.38% and was 1.25% better than the S&P500 at 1.34%. Because Coke operates on such a massive scale, even though carbonated beverage sales may be decreasing in the United States and the focus may be shifting to overseas and small decreases may be inevitable, they still remain quite constant. This is true to the staples sector as a whole which is historically known to have slow and steady growth.

## 1-Year Price Chart

Coca-Cola Company (The) Common

■ KO ■ XLP ■ S&P500



**Copy/paste 1-year price chart of Stock #1 here. Include in the chart sector ETF as “compare” and “SP500” as index. Comment on performance of Stock #1 relative to the sector ETF and SP500.**

Mid and late 2013 was not the best for Coke or consumer staples as a whole. When looking at the 1-year chart, those poor performances pull down the stock overall, but when looking at the same competitors on the 1-month range, Coke is shown to be outperforming both the Consumer Staples sector and the S&P500 as a whole. Coke tends to follow the trends when looking at the sector and S&P500 as together. It again solidifies the idea the staples stocks show slow but steady and continual growth without any major swings in any one direction.

## (B-2) Valuations, Estimates and Recommendations

Original Analysis: Presentation on 3/7/2014

<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	20.07	27.64	33.96
P/S (TTM)	3.59	2.00	5.11
P/B (MRQ)	5.07	2.27	24.17
P/CF (TTM)	15.87	10.15	28.05

## Re-evaluation Analysis

### VALUATION RATIOS

	Company	Industry	Sector
P/E Ratio (TTM)	20.20	27.89	32.37
P/E High - Last 5 Yrs.	21.70	18.15	28.42
P/E Low - Last 5 Yrs.	12.99	10.15	15.34
Beta	0.48	0.26	0.51
Price to Sales (TTM)	3.61	1.11	4.75
Price to Book (MRQ)	5.10	2.27	24.65
Price to Tangible Book (MRQ)	30.45	1.72	26.81
Price to Cash Flow (TTM)	15.97	10.07	19.89
Price to Free Cash Flow (TTM)	39.64	24.31	46.22

### Comment on the changes

P/E ratio is up 0.13 from the original recommendation. Price to sales is up 0.02. Price to book is up 0.03. Price to cash flow is also up 0.10. All of the valuation ratios are up from the initial presentation on March 7<sup>th</sup>, 2014. These increases along with the \$0.96 increase in stock price, as small as all the increases are, seem to mean good news for Coca-Cola.

## Historical Surprises

### Original Analysis (3/7/2014)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Dec-13	11,310.10	11,040.00	-270.06	-2.39
Quarter Ending Sep-13	12,052.90	12,030.00	22.92	0.19
Quarter Ending Jun-13	12,958.50	12,749.00	-209.51	-1.62
Quarter Ending Mar-13	10,942.60	11,035.00	92.39	0.84
Quarter Ending Dec-12	11,533.50	11,465.00	-68.51	-0.59
<b>Earnings (per share)</b>				
Quarter Ending Dec-13	0.46	0.46	0	0.67
Quarter Ending Sep-13	0.53	0.53	0	0.51
Quarter Ending Jun-13	0.63	0.63	0	0.06
Quarter Ending Mar-13	0.45	0.46	0.01	3.05
Quarter Ending Dec-12	0.44	0.45	0.01	3.26
Consensus Estimates Analysis				

### Re-evaluation Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
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Quarter Ending Dec-12	11,533.50	11,465.00	68.51	0.59
<b>Earnings (per share)</b>				
Quarter Ending Dec-13	0.46	0.46	0.00	0.67
Quarter Ending Sep-13	0.53	0.53	0.00	0.51
Quarter Ending Jun-13	0.63	0.63	0.00	0.06
Quarter Ending Mar-13	0.45	0.46	0.01	3.05
Quarter Ending Dec-12	0.44	0.45	0.01	3.26

### Comment on the changes

There have been absolutely no changes in the historical surprises charts since the original presentation.

### Consensus Estimates

#### Original Analysis (3/7/2014)

	<u># of Estimates</u>	<u>Mean</u>	<u>High</u>	<u>Low</u>	<u>1 Year Ago</u>
<b>SALES (in millions)</b>					
Quarter Ending Mar-14	13	10,689.00	11,534.00	10,006.40	11,242.30
Quarter Ending Jun-14	13	12,817.00	13,560.00	12,525.40	14,047.80
Year Ending Dec-14	21	47,015.10	49,554.20	45,646.90	51,540.80
Year Ending Dec-15	21	49,083.90	52,204.70	47,666.70	54,398.30
<b>Earnings (per share)</b>					
Quarter Ending Mar-14	16	0.45	0.5	0.42	0.48
Quarter Ending Jun-14	16	0.64	0.69	0.62	0.7
Year Ending Dec-14	24	2.11	2.36	2	2.33
Year Ending Dec-15	22	2.25	2.49	2.07	2.53
LT Growth Rate (%)	3	6.43	9	4.7	8.95

## Re-Evaluation 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>					
Quarter Ending Mar-14	15	10,611.50	10,960.80	10,006.40	11,201.00
Quarter Ending Jun-14	15	12,755.80	13,002.00	12,525.40	14,016.80
Year Ending Dec-14	22	46,835.10	47,634.40	45,646.90	51,526.50
Year Ending Dec-15	22	48,888.10	49,907.90	47,666.70	54,375.70
<b>Earnings (per share)</b>					
Quarter Ending Mar-14	17	0.45	0.47	0.42	0.48
Quarter Ending Jun-14	17	0.63	0.65	0.62	0.70
Year Ending Dec-14	24	2.09	2.23	2.00	2.33
Year Ending Dec-15	23	2.24	2.33	2.07	2.53
LT Growth Rate (%)	3	6.43	9.00	4.70	8.95

### Comment on the changes

Overall, consensus estimates for revenues and earnings have decreased by a minimal amount from the original recommendation. This could be due to newer estimates that have lower numbers. The quarter ending March-14 is down 77.5million, June-14 down 61.2m, year ending December-14 down 180m, and December-15 down 195.8m. The long term growth estimates though are exactly the same as the previous recommendation. With a company as large as Coca-Cola, any decreases like this should be looked at without any fear.

### Estimate Revision Analysis

#### Original Analysis (3/7/2014)

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Mar-14	0	1	0	9
Quarter Ending Jun-14	0	1	0	9
Year Ending Dec-14	0	3	0	17
Year Ending Dec-15	0	1	0	14
<b>Earnings</b>				
Quarter Ending Mar-14	0	1	0	11
Quarter Ending Jun-14	0	1	0	11
Year Ending Dec-14	0	3	0	19
Year Ending Dec-15	0	1	0	16

#### Re-Evaluation Analysis

**ESTIMATES REVISIONS SUMMARY**

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Mar-14	1	1	1	2
Quarter Ending Jun-14	1	0	1	1
Year Ending Dec-14	1	2	1	5
Year Ending Dec-15	1	1	1	2
<b>Earnings</b>				
Quarter Ending Mar-14	0	0	0	1
Quarter Ending Jun-14	0	0	1	1
Year Ending Dec-14	1	0	1	4
Year Ending Dec-15	0	0	0	2

**Comment on the changes**

Over the last week, 4 analysts have moved their revenue estimates up and 1 has moved their earnings estimate up for the year ending December 2014. 4 analysts have also moved their revenue estimates down and none have revised down for earnings. These look considerably better than the previous revisions table of the original presentation date, where there were 0 revenue or earnings upward revisions, showing some promise. The estimates for down in the last 4 weeks of the original table look pretty terrible, where the new table looks much, much better, with many less downward revisions.

**Analysts' Recommendations**

**Original Analysis (3/7/2014)**

<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	8	9	9	8
(2) OUTPERFORM	6	6	5	5
(3) HOLD	8	7	7	7
(4) UNDERPERFORM	1	1	1	1
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
<b>Mean Rating</b>	<b>2.09</b>	<b>2.00</b>	<b>2.00</b>	<b>2.05</b>

## Re-Evaluation Analysis

## ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	8	8	9	9
(2) OUTPERFORM	6	6	5	5
(3) HOLD	9	8	7	7
(4) UNDERPERFORM	1	1	1	1
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.12	2.09	2.00	2.00

### Comment on the changes

The mean rating for the current month has increase by .03 from 2.09 the previous month to 2.12. The only reason for this is that there is one additional analyst that has added to the (3) Hold rating. None of the original analysts seem to have changed their recommendation, it was just the one additional analyst added to hold. I really don't think that there is any cause for alarm since the change in the rating is absolutely so minuscule, even if the change is in a negative direction.

**(B-3) Technical Indicators (“Moving Average” and “Relative Strength Index” from <http://finance.yahoo.com/>)**

Coca-Cola Company (The) Common



Coca-Cola Company (The) Common



**How have the two sets of technical charts changed from the ones in the original report? Are findings from technical analysis supportive of your other findings?**

The 6-month moving price chart is currently looking much better than it did in the original report that was presented on 3/7/2014. On the original chart, the 10-day was about 2.25 under the 50-day, where now the 10-day is barely even .1 under the 50-day. The golden cross is nearly about to happen which will indicate a bull market on the horizon. The market is looking even more favorable upon the KO stock.

The 2-year chart looks very similar to the original, considering that it has just barely been over 2 weeks since the original was pulled.

**Section (C) Sector Holding Recommendations**

Based on your sector update research, recommend and provide justifications what CIF should do for each individual stock it holds in the sector:

1. Continue to hold and keep “target price” & “stop-loss price” as is;
2. Adjust “target price”. If you recommend an adjustment, you must suggest a new “target price”;
3. Adjust “stop-loss price”. If you recommend an adjustment, you must suggest a new “stop-loss price”;
4. Sell the stock;

Provide your recommendations in the following table

Company Name	Ticker Symbol	Date Recommended	Date Re-evaluated	Recommendation			
					Sell	Adjust “Target Price”	Adjust “Stop-loss Price”
The Coca-Cola Company	KO	3/7/2014	3/26/2014				


I am recommending that we hold and keep the target price and stop-loss price as they are. We have only had the Coca-Cola stock for 16 days and there has been so little change in either direction that I believe that it would just be silly to make any drastic changes.

<http://seekingalpha.com/article/2096243-johnson-and-johnsons-sale-of-k-y-brand-to-reckitt-benckiser-confirms-focus-on-pharma?source=yahoo>

<http://moneymorning.com/2014/01/13/beam-nyse-beam-stock-jumps-26-suntory-deal/>

<http://www.zacks.com/commentary/31352/consumer-staples-stock-outlook---feb-2014>

<http://www.cnbc.com/id/101517496>

<http://www.bloomberg.com/news/2014-03-11/u-s-index-futures-little-changed-as-s-p-500-near-record.html>

<http://www.reuters.com/article/2014/03/06/kroger-results-idUSL3N0M33VB20140306?type=companyNews>

Charts and Tables taken from [finance.yahoo.com](http://finance.yahoo.com) and [reuters.com](http://reuters.com)