

# CONSUMER DISCRETIONARY

(S5COND)

Sector Presentation and Recommendations given by Devara  
Aryasta and Ashley Faulkner

# AGENDA

Sector Information

Business Analysis

Economic Analysis

Financial Analysis

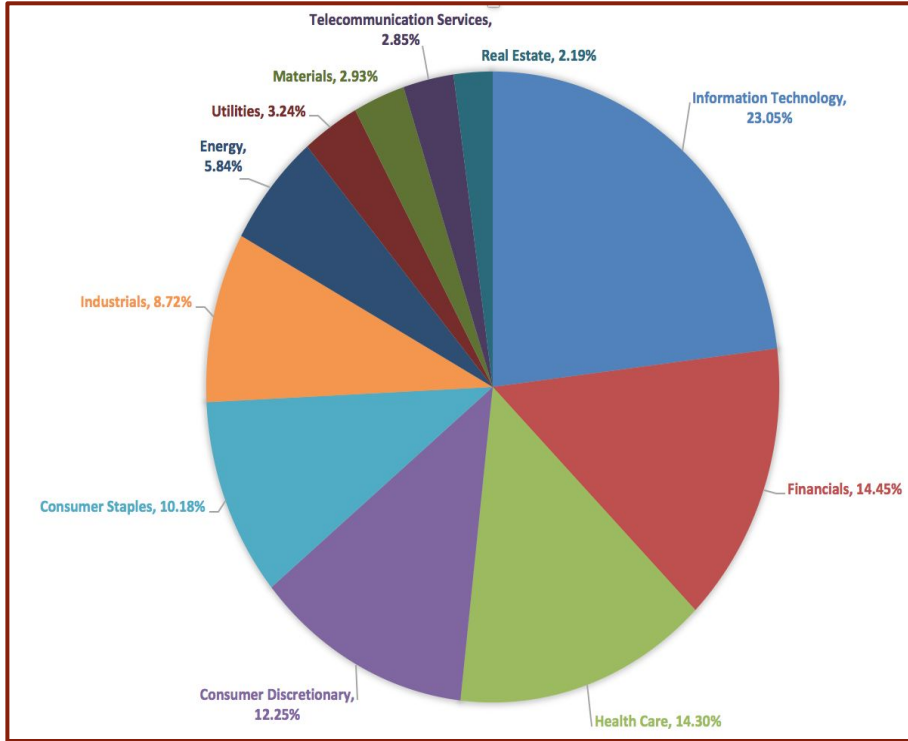
Valuation Analysis

Overall Recommendation

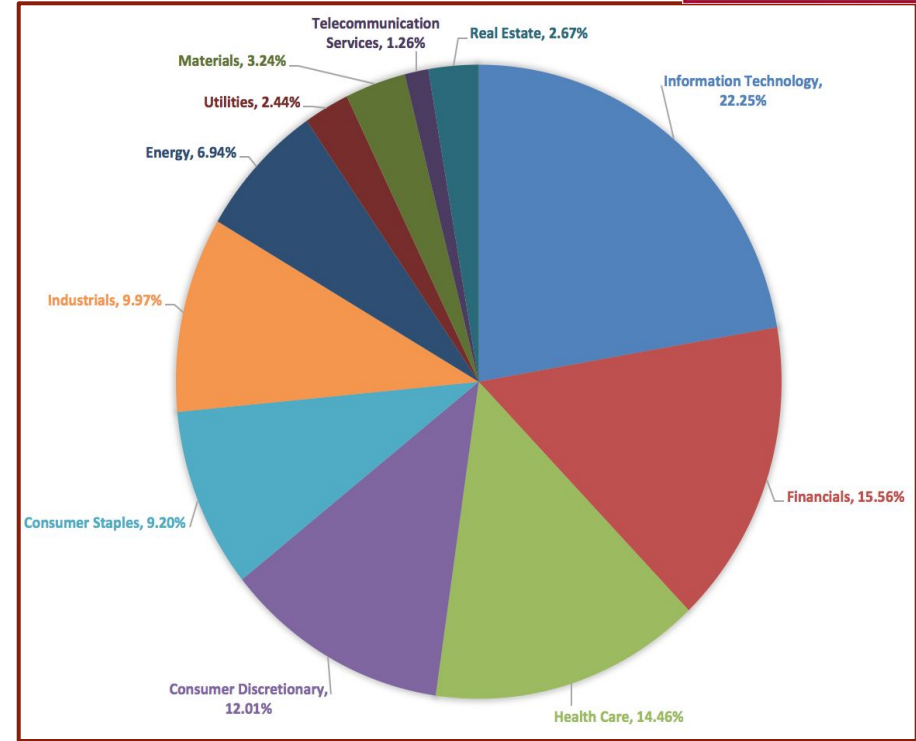
Question and Answer

Sources

# SECTOR INFORMATION



Securities Allocation: Versus the S&P500

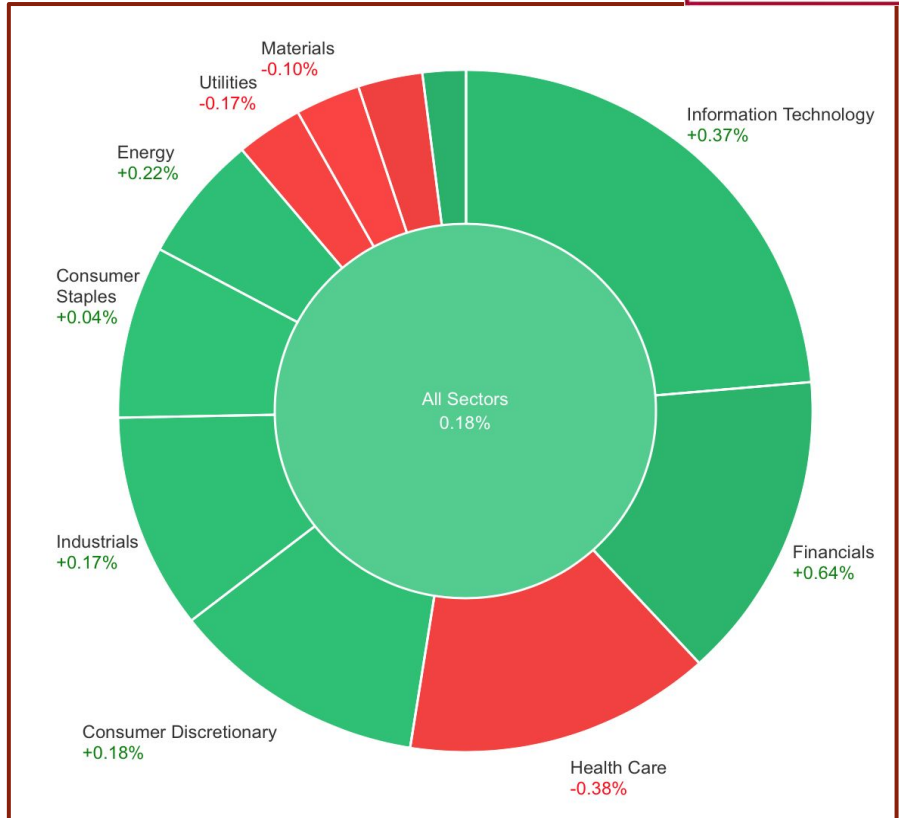


Securities Allocation: Versus the SIM Portfolio

# SECTOR INFORMATION

## What is the size of Consumer Discretionary? Compared to the S&P500?

- Consumer Discretionary has had a price change of +0.18% (as of October 13th)
  - In line with all sectors in the S&P500, which also has had a growth of +0.18%.
- Consumer Discretionary is in the top 5 sectors when it comes to positive price change - ranking 4 out of 5.
- Market Capitalization is 5,100 Billion and it has 83 constituents
- Has the second most industries of all sectors under its wing, with a total of 12 - Industrials has the most at 14



# SECTOR INFORMATION

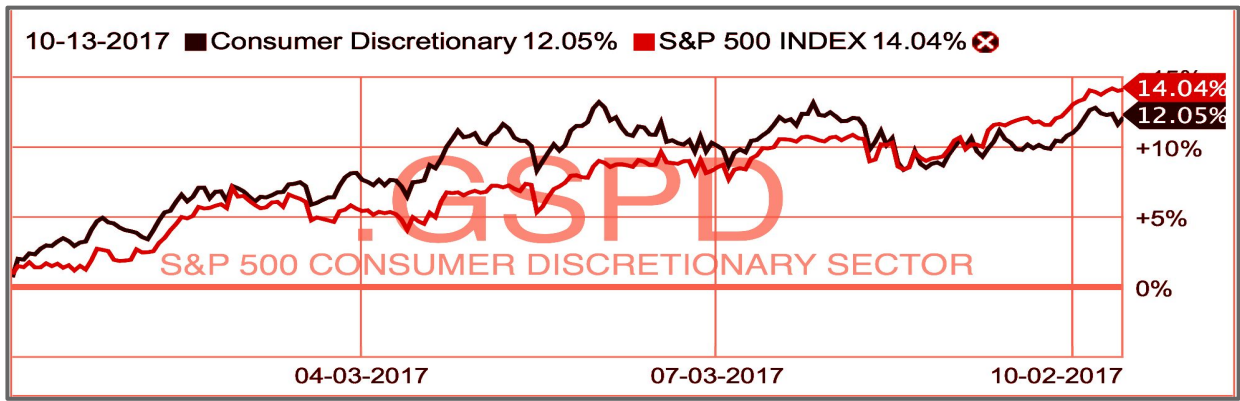
What are the various industries within the sector?

- Automobiles (\*GM\*)
- Diversified Consumer Services (\*SCI\*)
- Hotels and Restaurants
- Internet and Catalog Retail
- Leisure Products
- Media
- Textiles, Apparel, and Luxury Goods

What are the largest companies within the sector?

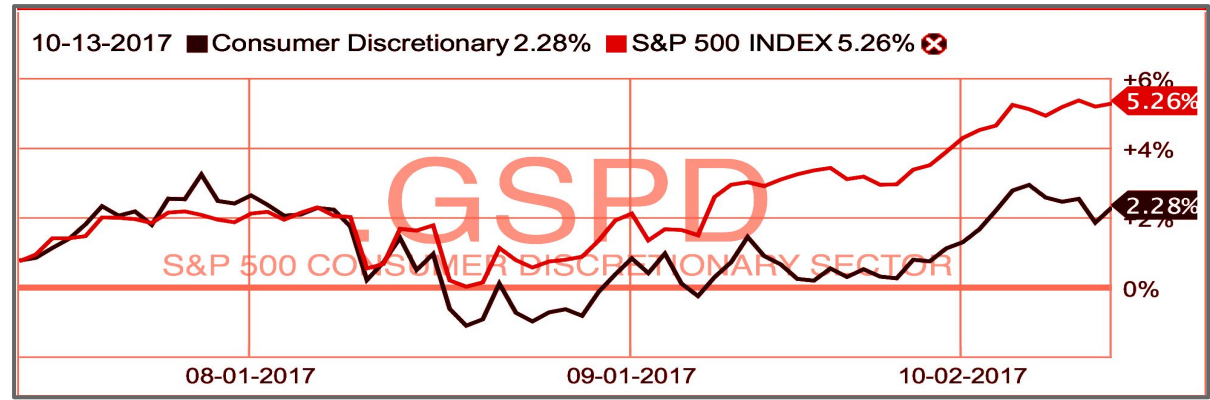
- Amazon
- Home Depot
- Comcast Corp. A
- Walt Disney Co.
- McDonald's Corp
- The Priceline Group Inc.
- Time Warner Inc.
- Netflix Inc.
- Starbucks Corp.
- Charter Communications

# SECTOR INFORMATION



Consumer Discretionary Year-to-Date (YTD) comparison to the S&P500

Consumer Discretionary Quarter-to-Date comparison to the S&P500



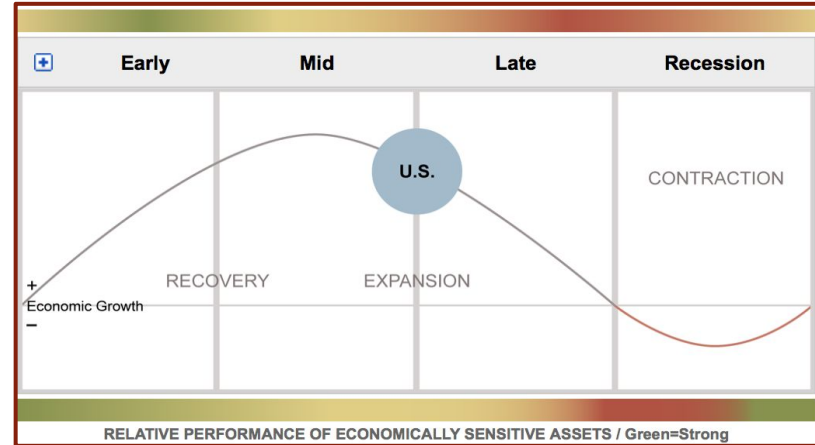
# BUSINESS ANALYSIS

Consumer Discretionary has very diverse industries within the sector. This means that it is difficult to pinpoint the overall life cycle it is in

- Internet and Catalog retail is experiencing large growth
- Media firms are established and mature
- Textiles & apparels and Automobiles are seeing a slow decrease

Consumer Discretionary sector is highly cyclical because it correlates to disposable income

- It depends on the macroeconomic conditions
- Overperforms the market during expansion periods
- Underperforms compared to the market when there is a recession

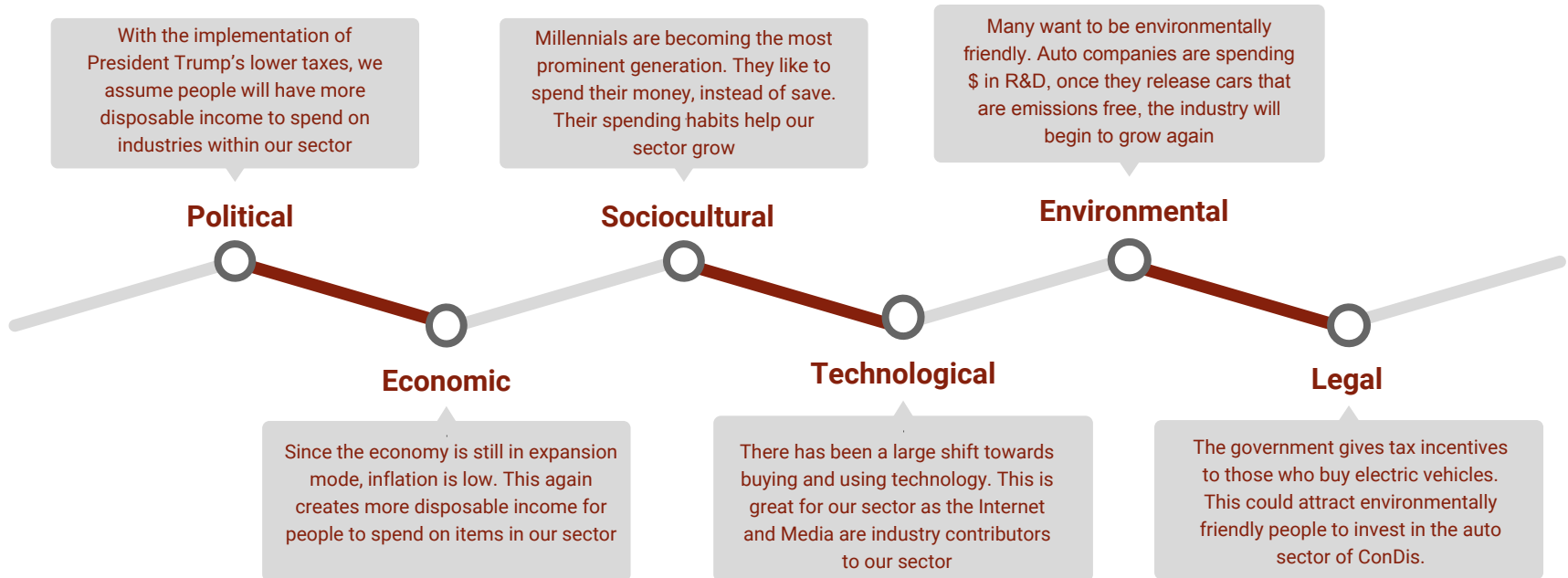


## Sector Performance by Business Cycle Phase

Sector	Early	Mid	Late	Recession
Consumer Discretionary	++		--	
	++ Consistently Overperform	-- Consistently Underperform	□ No Clear Pattern	
	+ Overperform	- Underperform		

# BUSINESS ANALYSIS

## PESTEL ANALYSIS





# BUSINESS ANALYSIS

## PORTER'S FIVE FORCES

Power of Buyers	Power of Suppliers	Threat of Substitutions	Threat of New Entry	Industry Rivals
<b>HIGH</b>	<b>LOW</b>	<b>HIGH</b>	<b>LOW - HIGH</b>	<b>MODERATE</b>
<p>This sector is completely dependent on the fact that the buyer is willing to spend disposable income in the industries within the sector. The is at the customer's mercy</p>	<p>Suppliers have little power as industries, like textile/ apparel, and restaurant can get their fabric and food easily with low switching costs</p>	<p>As for many companies that focus customer's disposable income, variation is high and people are very likely to shop another brand/store if the product they want isn't available</p>	<p>The industries within are very diverse. Threat of entry could be a larger issue for a textile and apparel company than it might be for the auto industry</p>	<p>Because each industry within the sector is different. Because of this, they don't compete as a sector would if all rivals were on equal grounds</p>

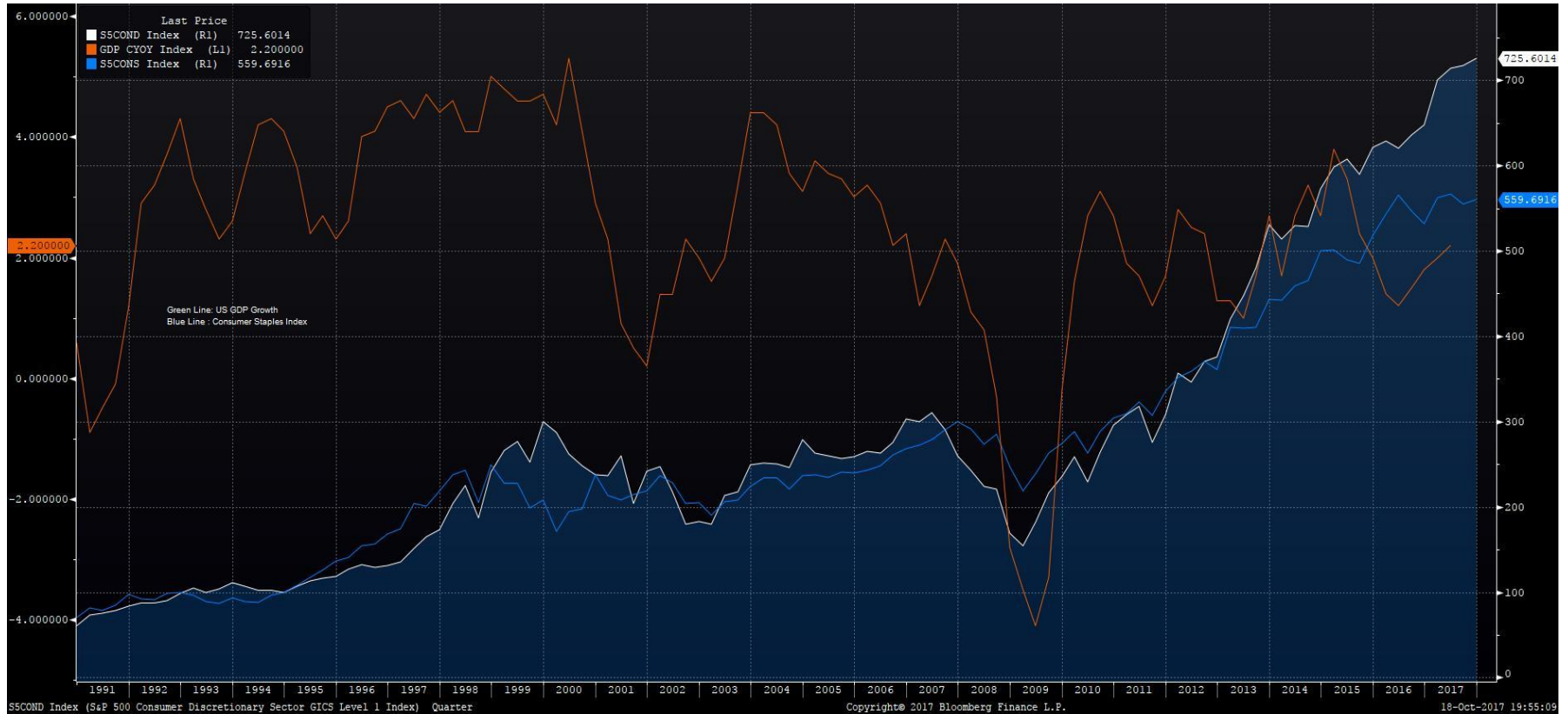
# ECONOMIC ANALYSIS

# ECONOMIC ANALYSIS

Consumer Discretionary sector is a highly cyclical sector due to its nature of non-essential goods and services. Below are economic factors that are important to the sector growth among others:

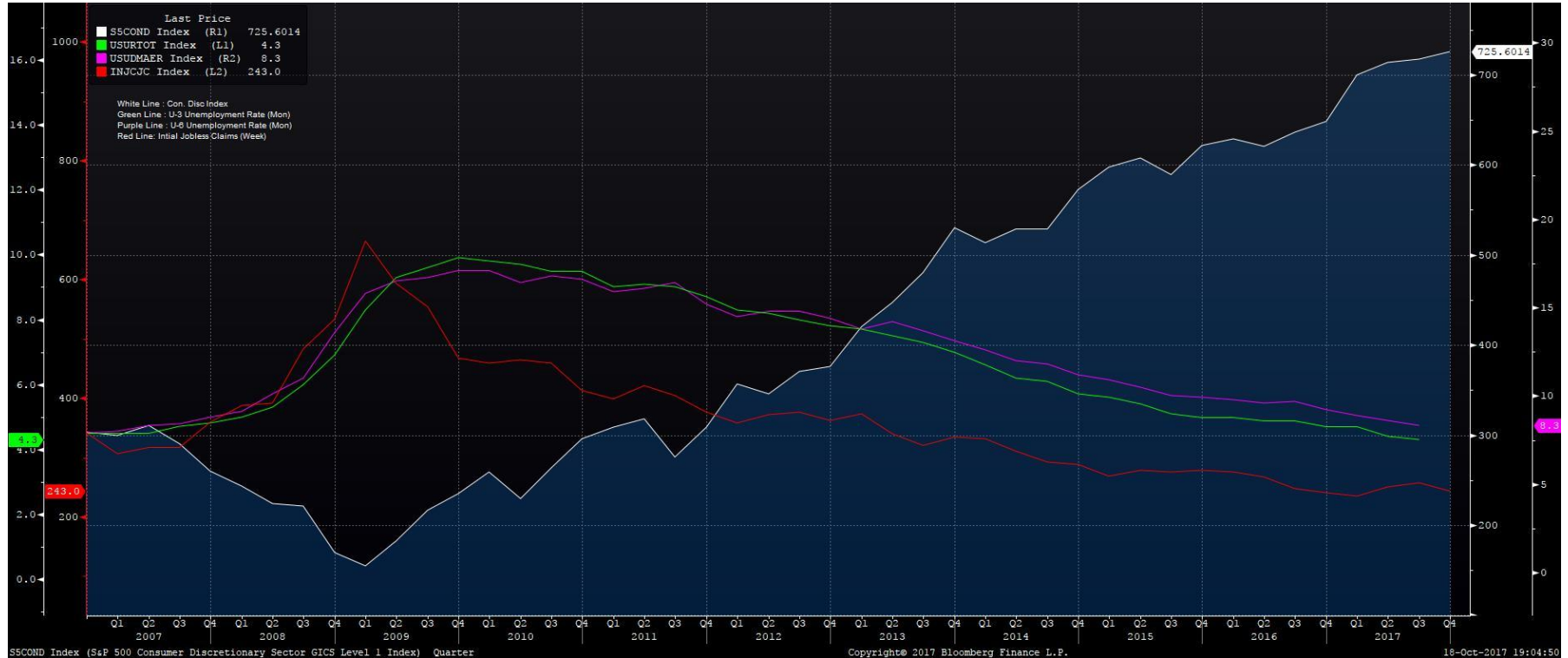
- a. US GDP growth
- b. Unemployment rate
- c. Wage growth
- d. Inflation
- e. Interest Rates
- f. Consumer Confidence

# CONSUMER DISC. INDEX VS. GDP GROWTH



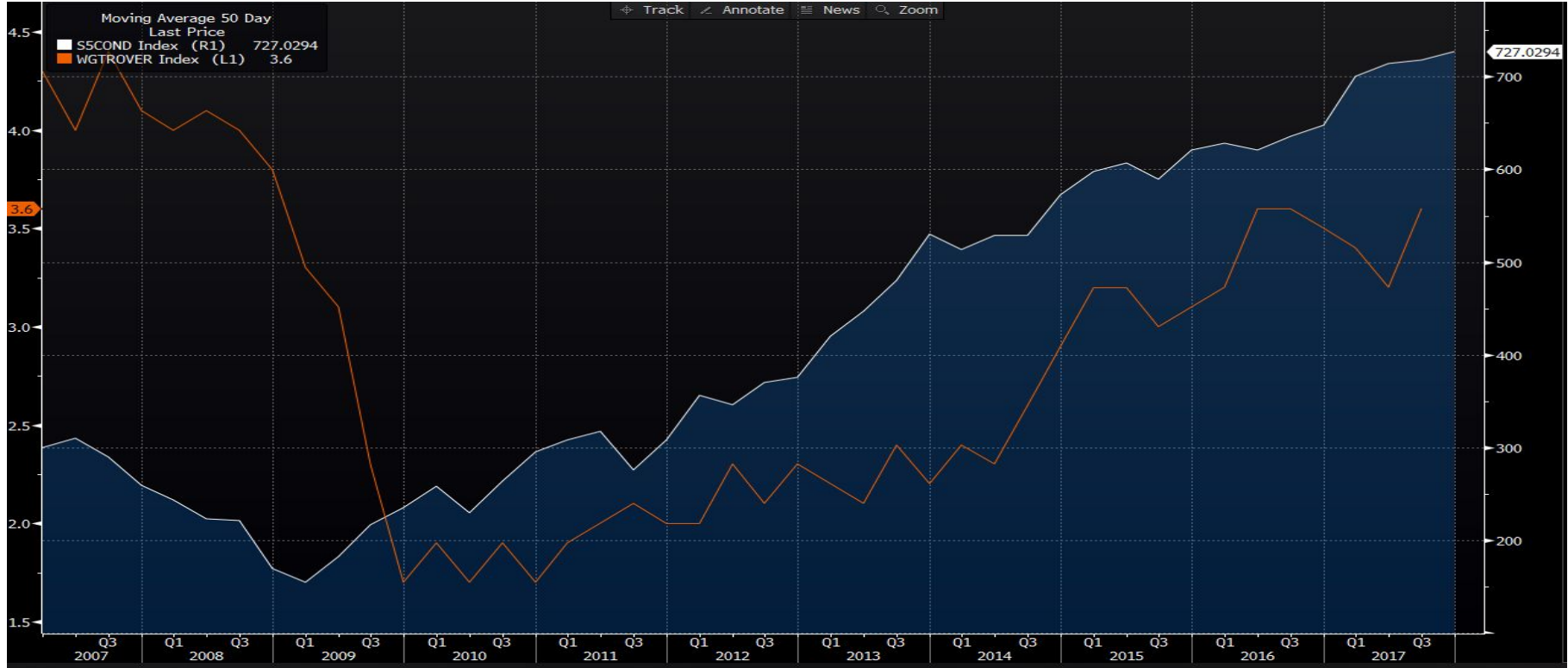
Consumer discretionary is positively correlated with GDP growth.

# CONSUMER DISC. INDEX VS. LABOR MARKET



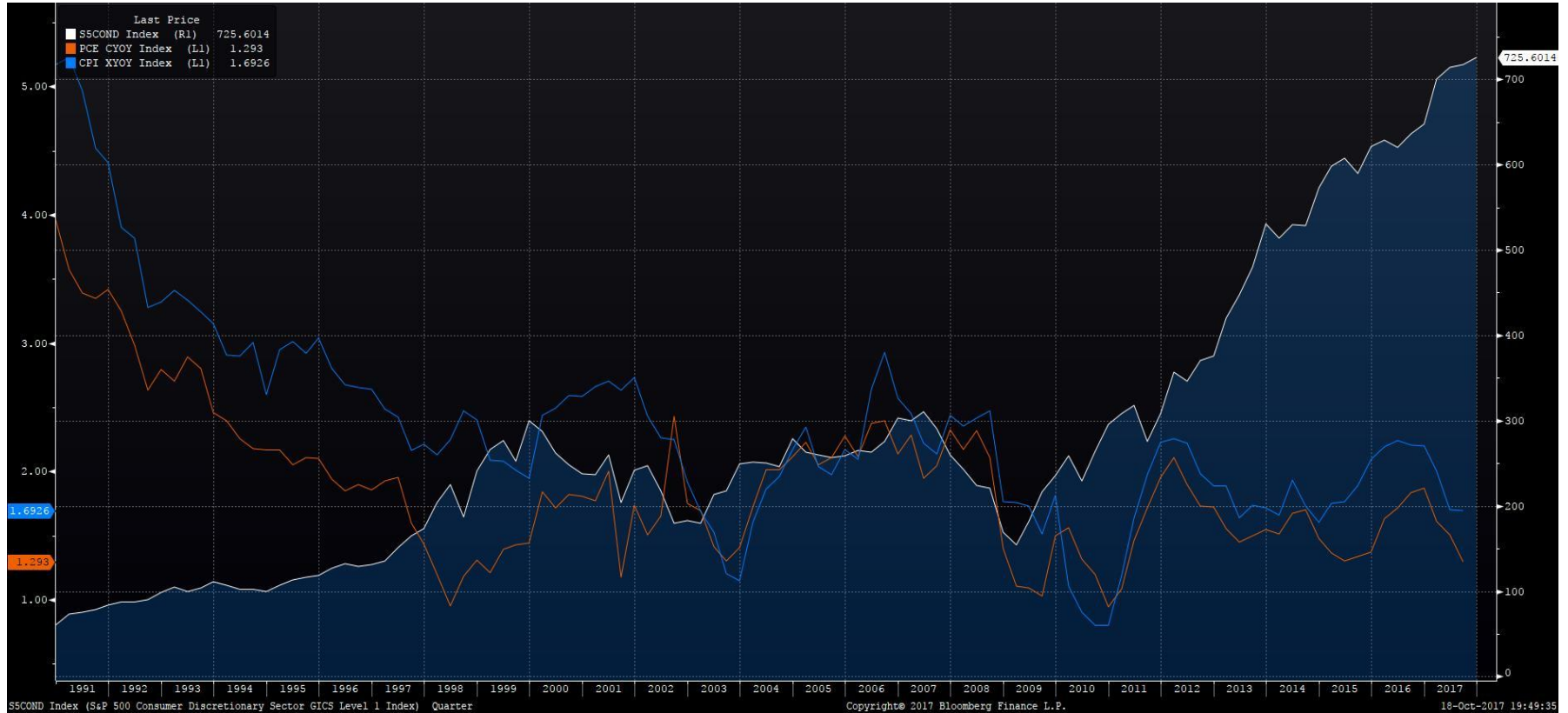
Consumer discretionary is negatively correlated with unemployment rate and initial jobless claim index.

# CONSUMER DISC. INDEX VS. WAGE GROWTH



Consumer discretionary is positively correlated with Wage Growth

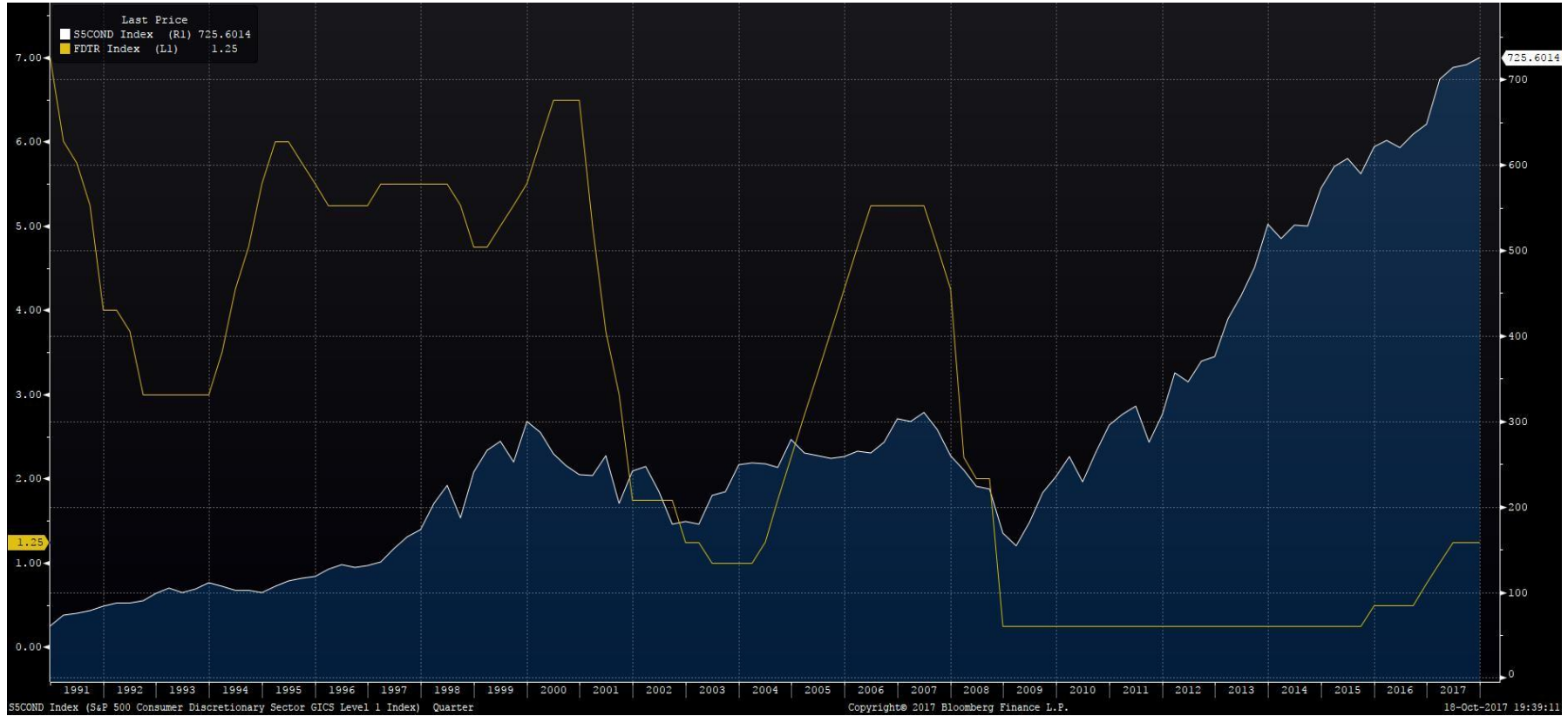
# CONSUMER DISC. INDEX VS. INFLATION



Consumer discretionary is negatively correlated with inflation.



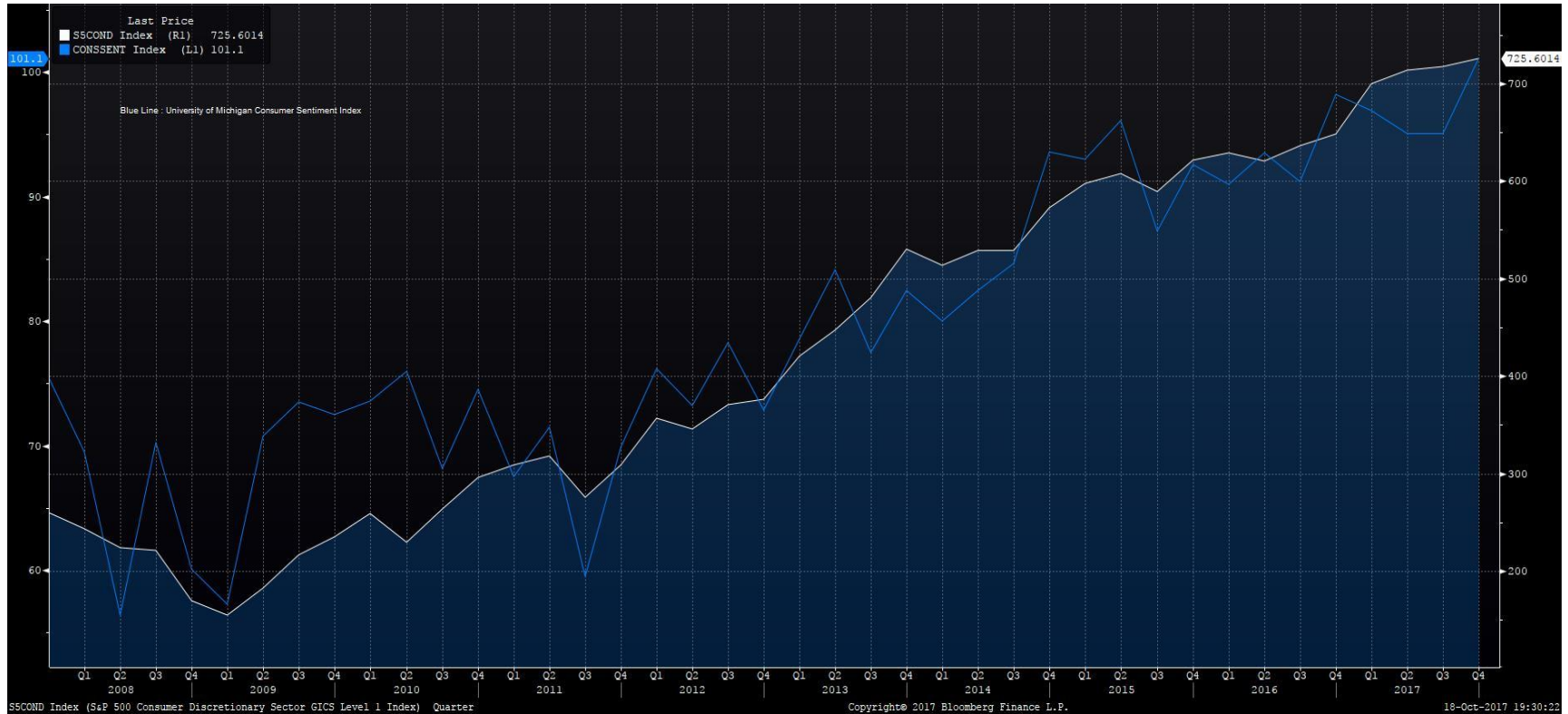
# CONSUMER DISC. INDEX VS. INTEREST RATES



Consumer discretionary is negatively correlated with interest rates.



# CONSUMER DISC. INDEX VS. CONSUMER CONFIDENCE



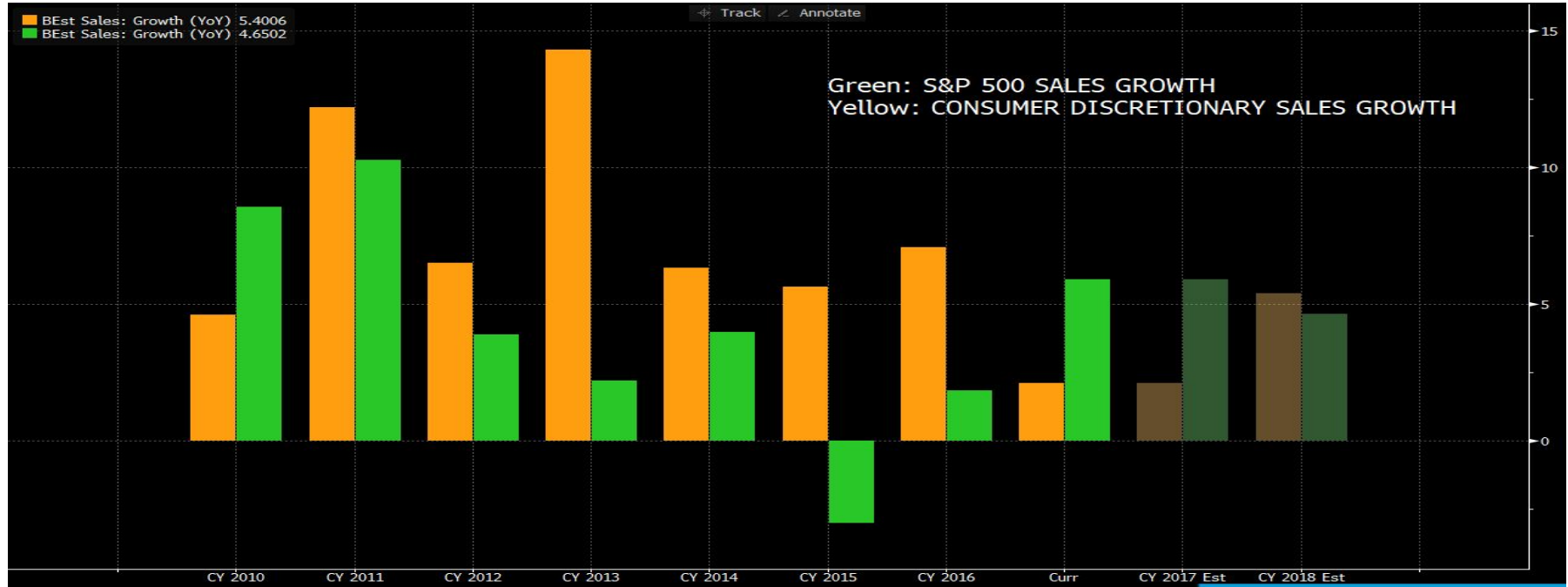
Consumer discretionary is positively correlated with Consumer Confidence index.

# SUMMARY OF ECONOMIC ANALYSIS

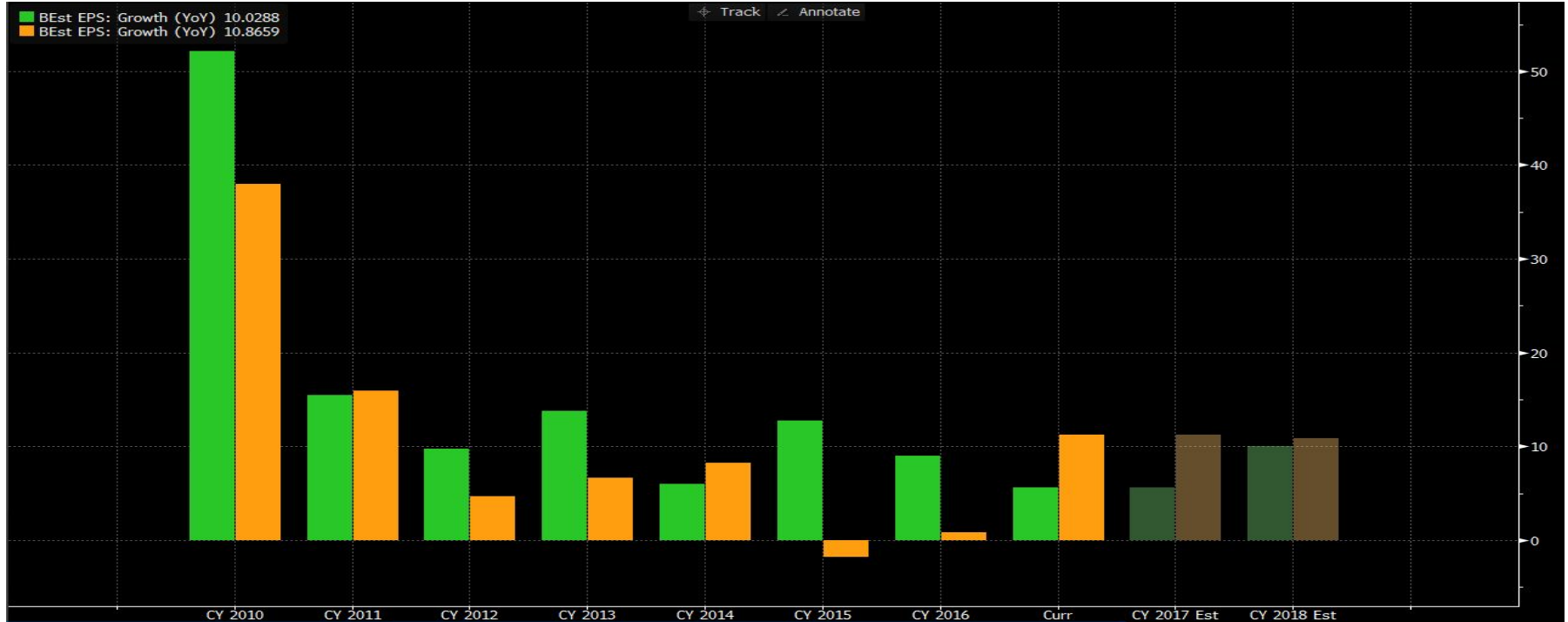
- **Supportive** Indicators: Low unemployment rate, high consumer confidence, high wage growth, low inflation figures.
- **Resistance** Indicators: Sluggish US GDP growth, future increase in interest rates.

# FINANCIAL ANALYSIS

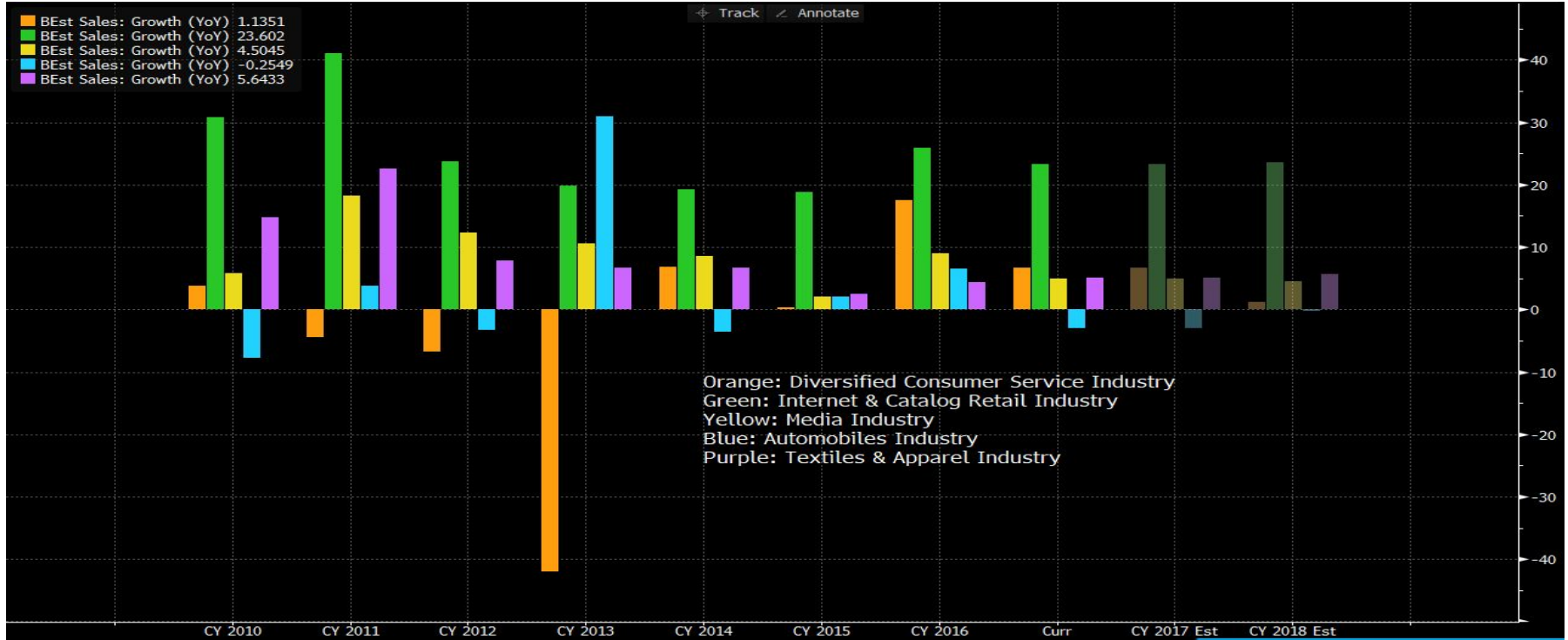
# SECTOR SALES GROWTH VS. S&P500



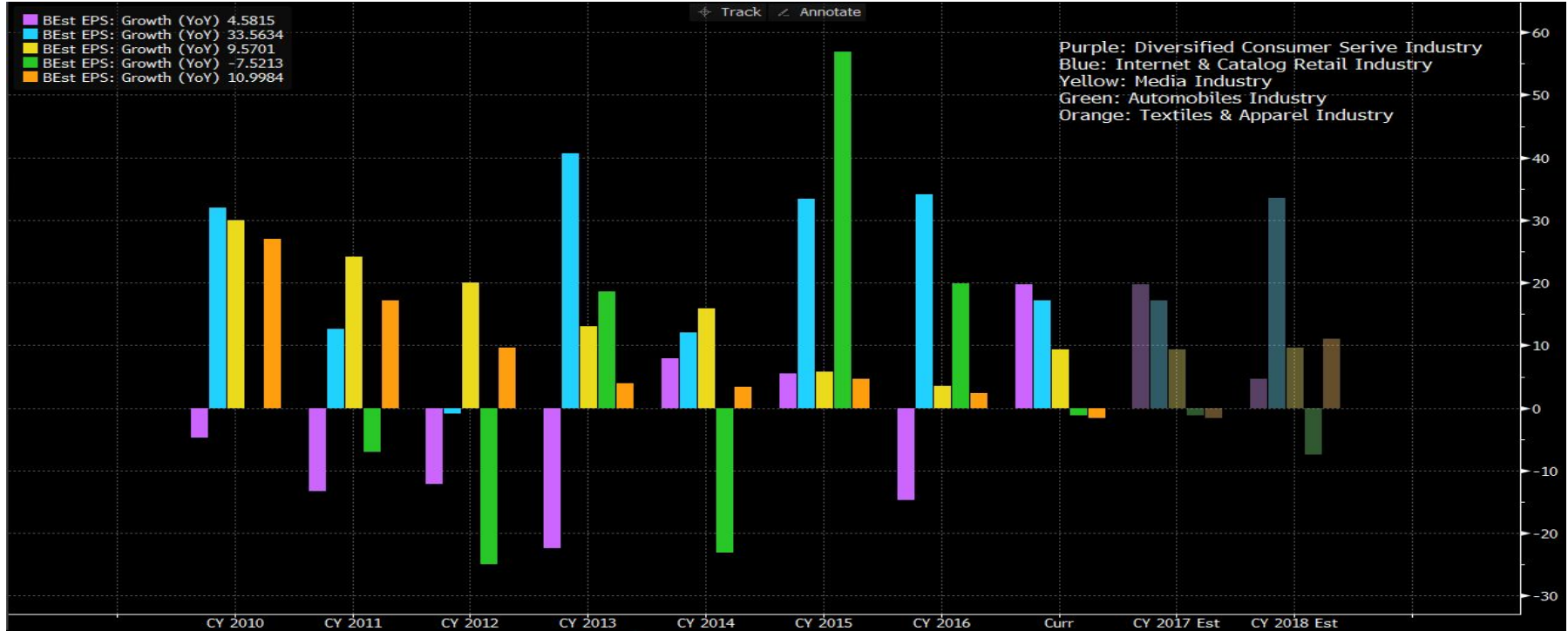
# SECTOR EPS GROWTH VS SP 500'S



# INDUSTRY SALES GROWTH



# INDUSTRY EPS GROWTH



# PROFIT MARGIN GROWTH

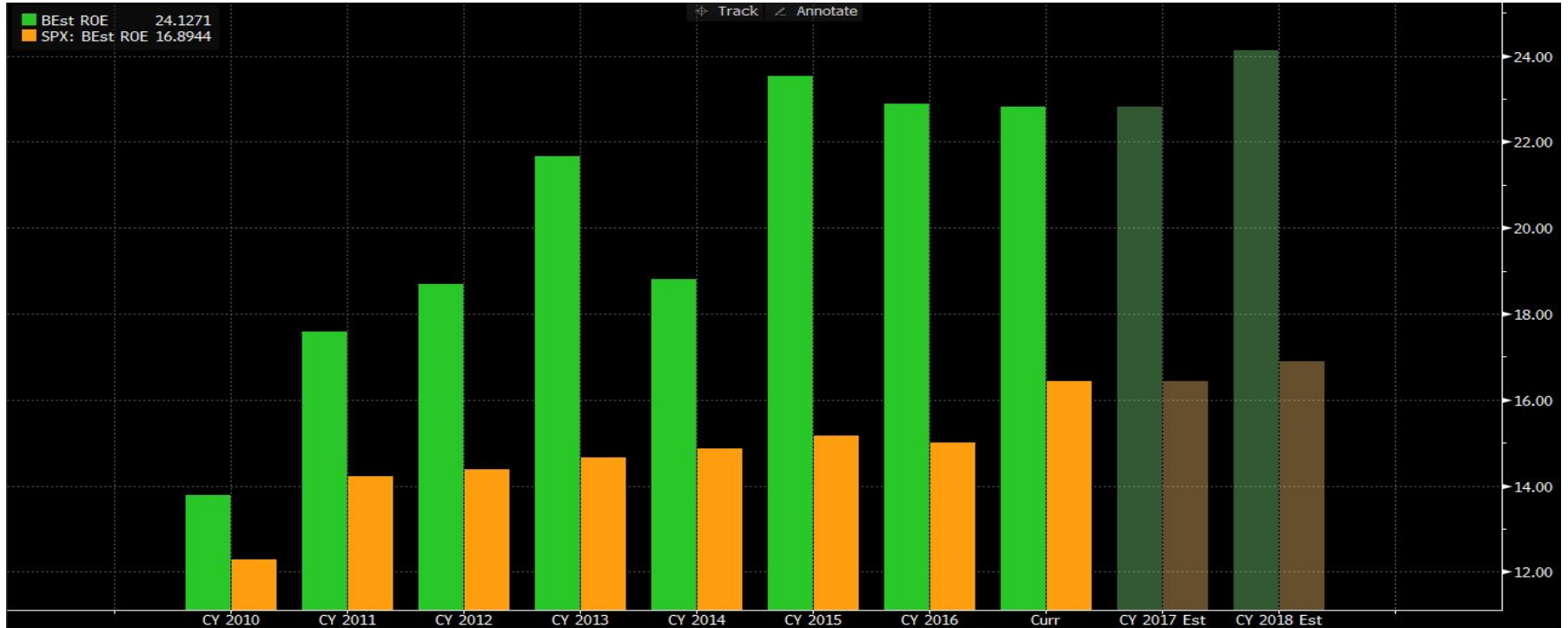




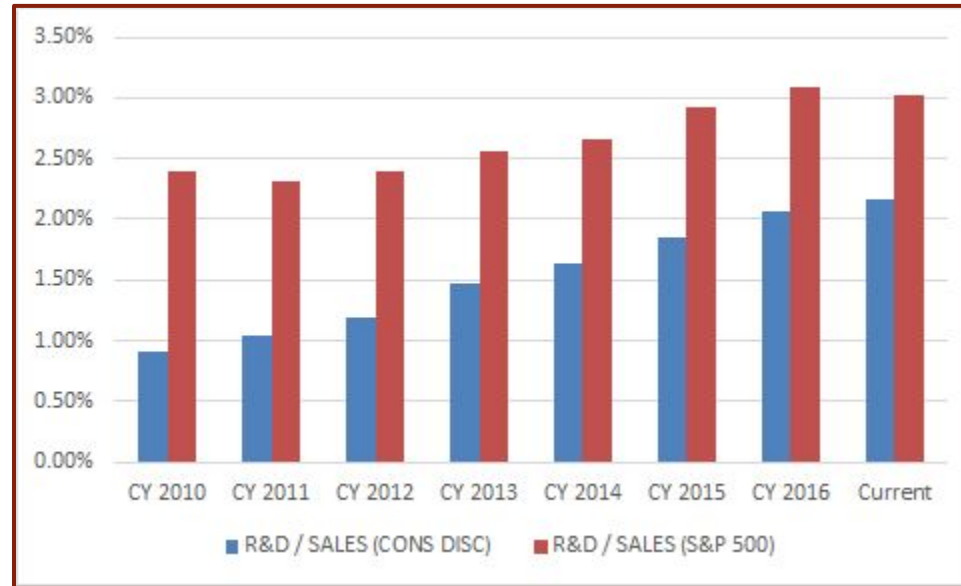
# OPERATING MARGIN GROWTH



# ROE

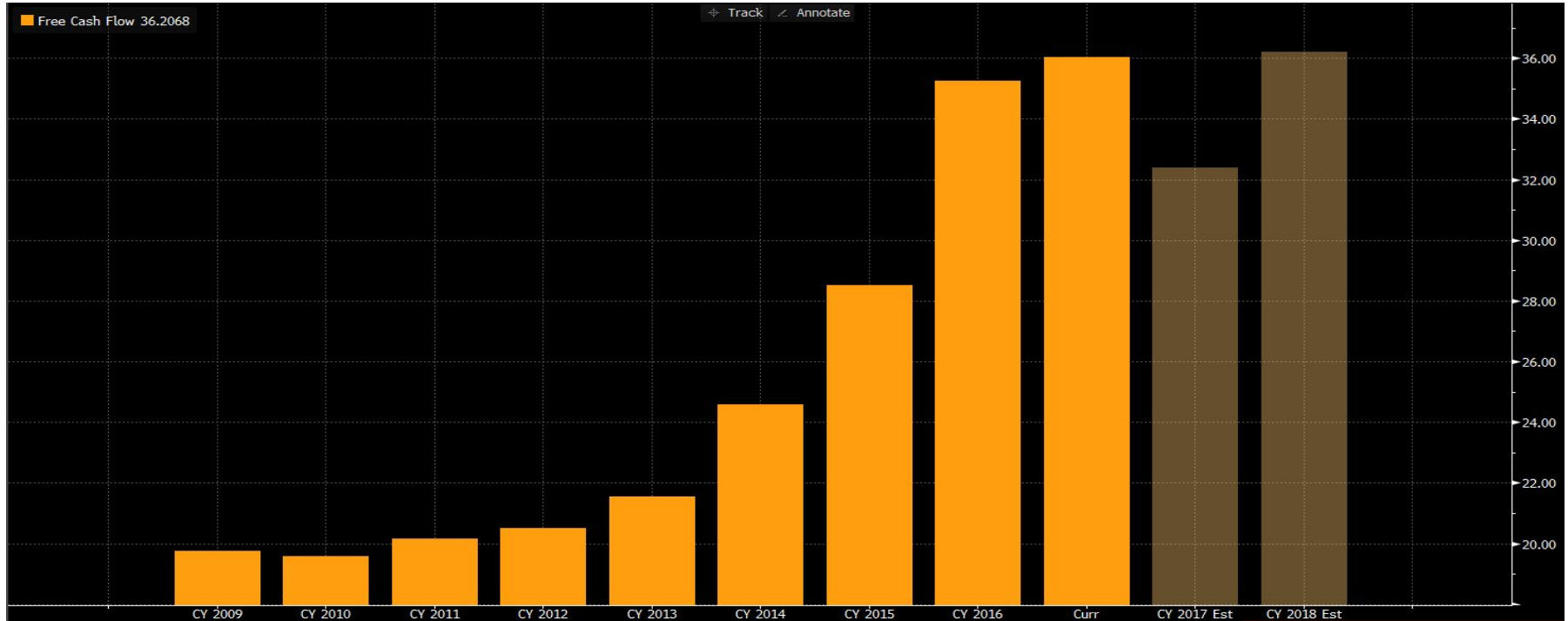


# R&D MARGIN



	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	Current
R&D / SALES (CONS DISC)	0.92%	1.04%	1.19%	1.47%	1.63%	1.85%	2.06%	2.16%
R&D / SALES (S&P 500)	2.40%	2.31%	2.40%	2.56%	2.66%	2.93%	3.09%	3.02%

# FREE CASH FLOW (FCF)



# INDUSTRY FCF



# SUMMARY OF FINANCIAL ANALYSIS

- **Supportive** Indicators: High future projection in sales growth, high ROE, high FCF, high R&D margin ratio
- **Resistance** Indicators: Low growth in EPS, operating margin, profit margin

# RELATIVE VALUATION ANALYSIS

# CONSUMER DISC. SECTOR RELATIVE TO S&P 500

CONSUMER DISCRETIONARY SECTOR	High	Low	Median	Current
(P/E)	21.71	15.21	20.38	20.38
(P/S)	1.62	0.89	1.45	1.44
(P/B)	5.15	2.46	4.68	4.90
(P/CF)	13.65	7.84	12.92	13.32
(P/EBITDA)	10.32	6.8746	9.5442	10.32

S&P 500	High	Low	Median	Current
(P/E)	21.82	13.41	18.97	19.43
(P/S)	2.18	1.23	1.82	1.91
(P/B)	3.23	2.05	2.79	2.88
(P/CF)	14.44	7.21	10.88	13.71
(P/EBITDA)	11.45	6.78	8.95	11.45

Overvalued

Undervalued



# CONSUMER DISC. INDUSTRIES TO S&P500

<u>P/E</u>	Auto	Internet	Media	D. Con	Textiles	Hotels & Restaurant	Leisure	S&P 500
Current	7.7	104.8	18.2	13.0	20.3	24.6	21.2	19.4
Average	7.5	87.8	17.9	15.1	21.2	23.8	21.5	19.7
<u>P/S</u>	Auto	Internet	Media	D. Con	Textiles	Hotels & Restaurant	Leisure	S&P 500
Current	0.4	3.3	2.0	1.7	1.9	3.0	1.6	2.1
Average	0.3	2.9	2.0	2.1	2.1	2.9	1.7	1.8
<u>P/B</u>	Auto	Internet	Media	D. Con	Textiles	Hotels & Restaurant	Leisure	S&P 500
Current	1.6	15.4	3.2	-	5.1	10.6	4.5	2.8
Average	1.5	13.6	3.2	62.6	5.2	9.9	4.4	2.9
<u>P/CF</u>	Auto	Internet	Media	D. Con	Textiles	Hotels & Restaurant	Leisure	S&P 500
Current	3.4	31.4	10.4	8.5	17.2	16.4	15.4	13.7
Average	3.8	28.9	10.7	12.2	18.3	15.7	14.5	12.3

Overvalued

Undervalued

# SUMMARY OF RELATIVE VALUATION ANALYSIS

SECTOR: UNDERVALUED

AUTO: UNDERVALUED

INTERNET: OVERVALUED

MEDIA: UNDERVALUED

D.CON: UNDERVALUED

TEXTILES: UNDERVALUED

HOTELS: OVERVALUED

LEISURE: OVERVALUED

# TECHNICAL ANALYSIS

# TECHNICAL ANALYSIS (SIMPLE MOV. AVG)



# TECHNICAL ANALYSIS (RSI)



# SUMMARY OF TECHNICAL ANALYSIS

**Simple Moving Average** = the 50 days weekly moving average is currently above the 200 days, which indicating that the market still bullish on the sector and a sign of trend reversal is not there.

**RSI** = The market is bullishly overreacted to the sector. This shows that the market is still in bullish territory on the sector.

# RECOMMENDATION

Should the SIM portfolio over or underweight the sector relative to the S&P 500?

- Quarterly and YTD Returns have shown that our sector is underperforming the S&P500
- So, Consumer Discretionary is overweight (undervalued) compared to the S&P500
- However could be a fluke since we think the S&P500 is overvalued (PE is 24 compared to average of 19)
- Historical data (3 year +) has shown that the sector has outperformed the S&P500

What are the major positives that you foresee and the biggest risks to your recommendation?

## Positives:

- Tax cuts by Trump could mean more disposable income spent in sector
- Low inflation and interest rates fuel consumer spending
- Sector's reliance on internet industry which is predicted to grow in the future

## Negatives:

- Economic downturn could severely hurt our sector since disposable income would decrease

# RECOMMENDATION

Within your sector, which industries would you over and underweight versus the S&P 500? Why?

Looking at the financial, economic, and relative and technical analysis:

**Overweight**

Automobile

Media

Textiles

Diversified Consumer Services

**Underweight**

Hotel

Leisure

Internet



QUESTIONS?

# SOURCES

Slide 3: SIM Portfolio Appraisal - September 2017 Excel Spreadsheet

Slide 4: <https://www.bloomberg.com/markets/sectors>,  
[https://eresearch.fidelity.com/eresearch/markets\\_sectors/sectors/sectors\\_in\\_market.jhtml](https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/sectors_in_market.jhtml)

Slide 5&6:

[https://eresearch.fidelity.com/eresearch/markets\\_sectors/sectors/sectors\\_in\\_market.jhtml?tab=industries&sector=25](https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/sectors_in_market.jhtml?tab=industries&sector=25), <https://us.spindices.com/indices/equity/sp-500-consumer-discretionary-sector>

Slide 7:

[https://eresearch.fidelity.com/eresearch/markets\\_sectors/sectors/sectors\\_in\\_market.jhtml?tab=sdbusiness&sector=25](https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/sectors_in_market.jhtml?tab=sdbusiness&sector=25)

Slide 8:

<https://www.cnbc.com/2017/06/30/heres-how-millennials-spend-their-money-compared-to-their-parents.html>

Slide 12:

[https://eresearch.fidelity.com/eresearch/markets\\_sectors/sectors/sectors\\_in\\_market.jhtml?tab=learn&sector=25](https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/sectors_in_market.jhtml?tab=learn&sector=25)

All other data is obtained from Bloomberg Terminal