

# Consumer Staples

Scott.Helkowski

YanJun Gu

Yiqin Gao

# Overview

- Primarily food, beverages (including alcoholic beverages), tobacco, retailing and household items.
- The staples sector has historically exhibited a beta of .52 and a correlation of .62. A typical reason to own this sector is due to its low correlation to the S&P 500.
- Demand for these products are less impacted by economic downturns.
  - In fact, some items such as alcohol and tobacco increase during economic downturns.
  - Discount stores may see increased sales.

# Sector Overview

- Inception Date 11-September-1989
- Number of Companies 40

As of 12/31/13:

- Largest Market Cap 254.62B
- Smallest Market Cap 7.469B
- Mean Market Cap 45.722B
- Median Market Cap 21.257B

# Sector Returns

- Through 2/28/14
  - Month (Feb.) 3.57%
  - QTD (1.75%)
  - YTD (1.75%)
- 
- |        |        |
|--------|--------|
| 1 year | 13.56% |
| 3 year | 15.75% |
| 5 year | 19.02% |

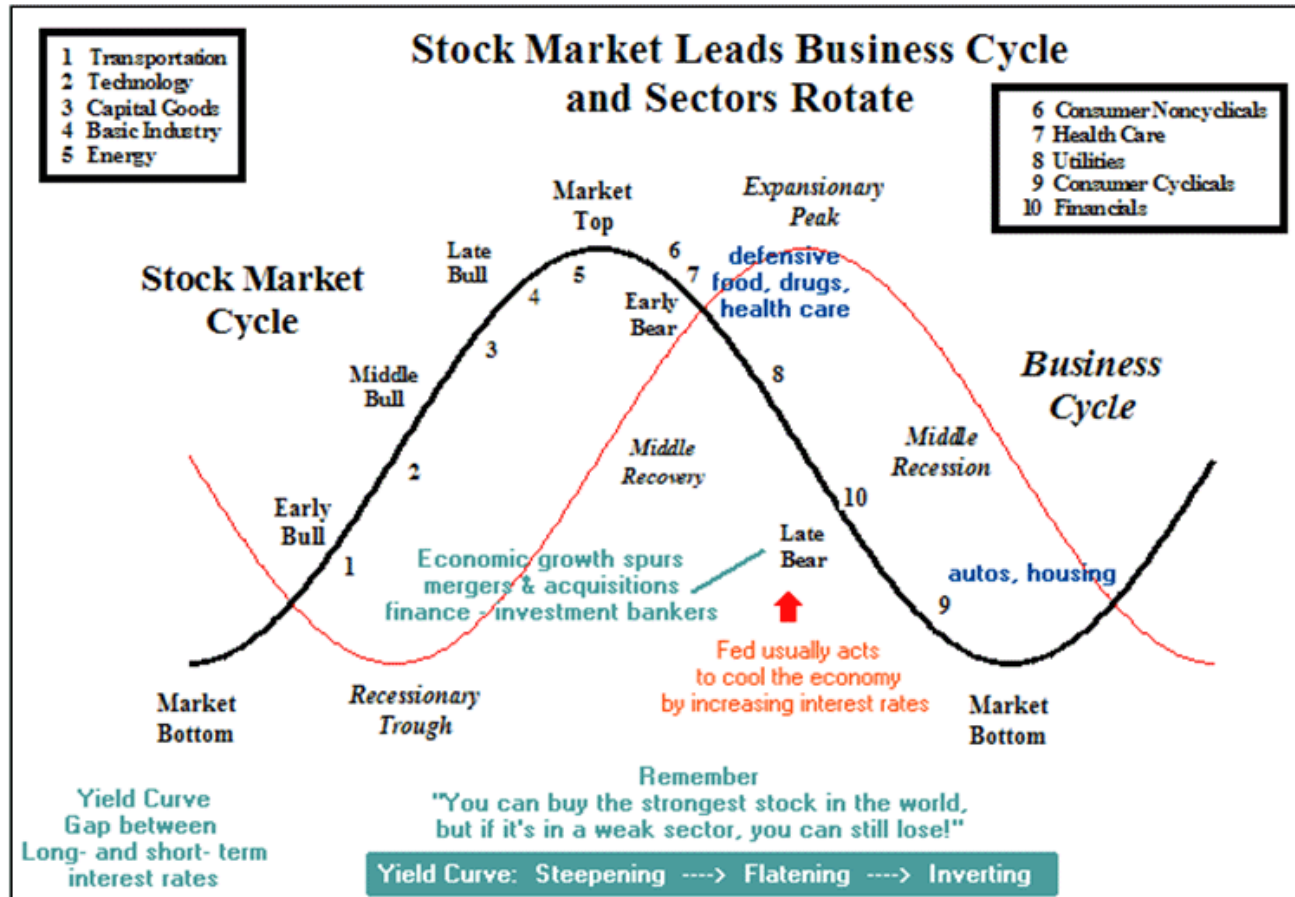
# Top 10 S & P Consumer Staples By Weight

Company	Stock Symbol	Market Cap. (Billions) (2/28/14)
Proctor & Gamble	PG	213.28
Coca-Cola, Co.	KO	168.31
Phillip Morris International	PM	128.26
Wal-Mart Stores	WMT	241.71
PepsiCo, Inc.	PEP	121.9
CVS Caremark, Corp.	CVS	86.48
Altria Group, Inc.	MO	72.26
Mondelez International	MDLZ	59.68
Colgate Palmolive Co.	CL	57.74
Costco Wholesale Corp.	COST	51.36

# SIM Holdings By Sector

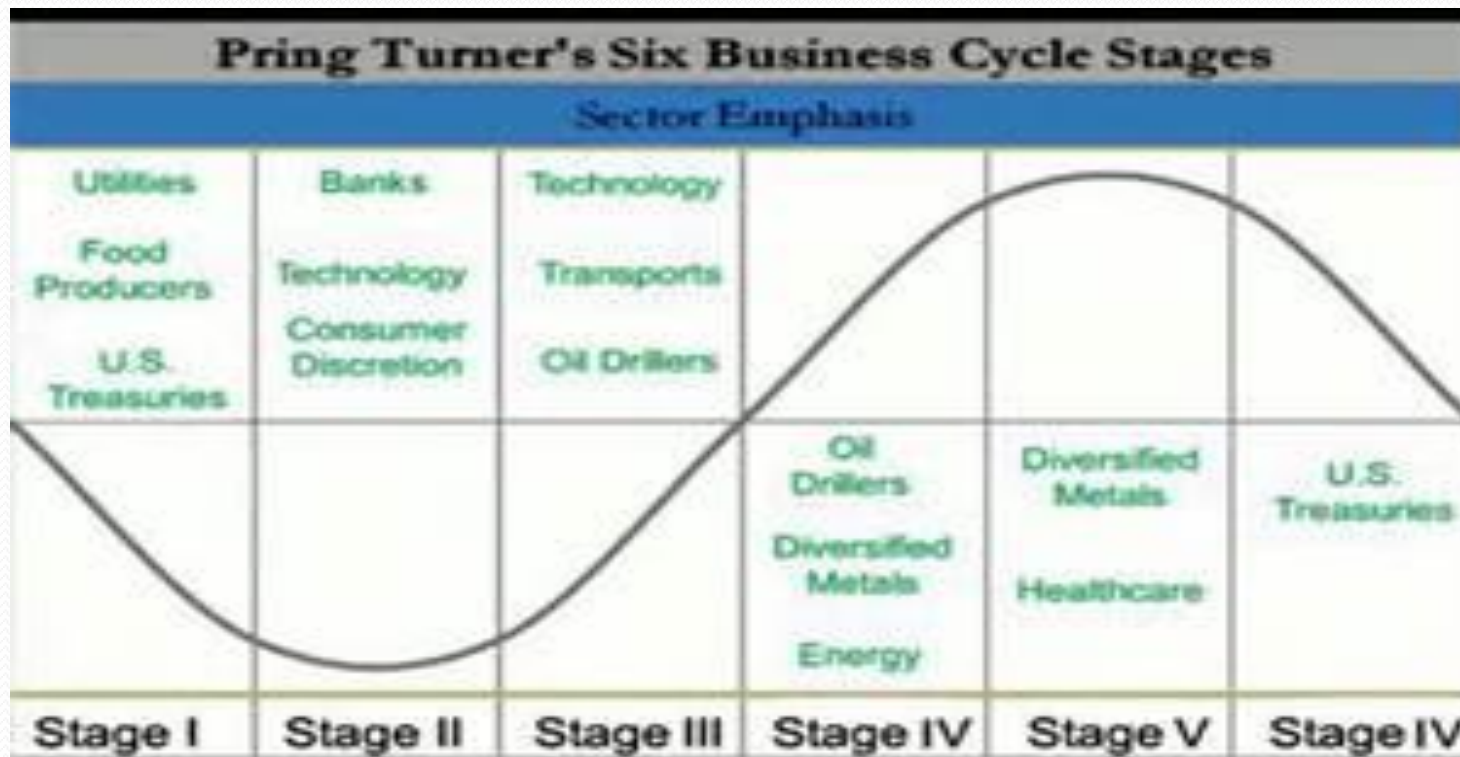
Sector	S&P 500 Weight	SIM Weight	Over/Underweight
Consumer Discretionary	12.29%	13.24%	0.95%
Consumer Staples	9.59%	9.47%	<b>-0.12%</b>
Energy	9.98%	8.91%	-1.07%
Financials	16.15%	15.83%	-0.32%
Health Care	13.47%	14.04%	0.57%
Industrials	10.83%	8.69%	-2.14%
Information Technology	18.82%	20.30%	1.48%
Materials	3.46%	3.05%	-0.41%
Telecommunication	2.29%	1.20%	-1.09%
Utilities	3.12%	3.43%	0.31%
Cash		1.78%	1.78%

# Business Cycle



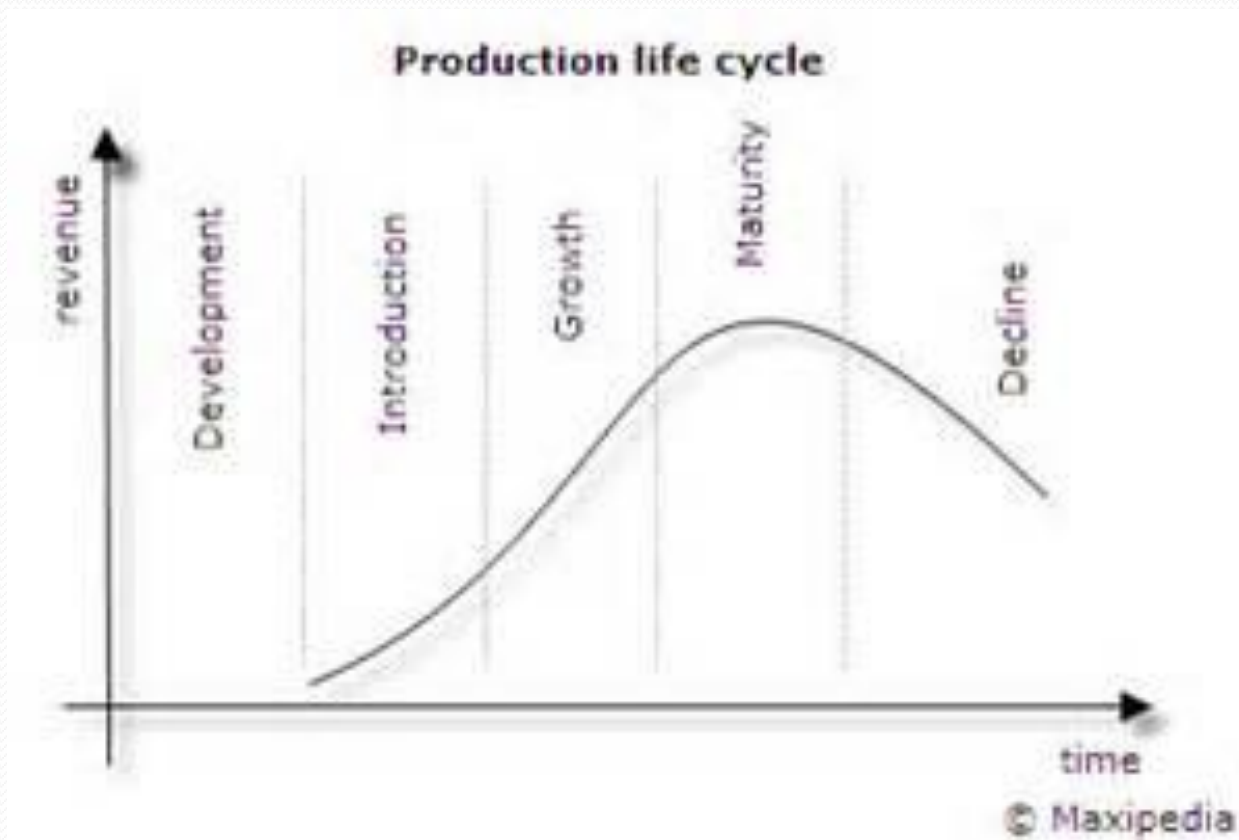
Source: Industry Sector Preferences by Richard W. Miller, Ph.D. (Jan. 05).

# Turner's Six Business Cycle Stages





# Product Life Cycle



# Conclusion

- Most Consumer Staples are in the mature phase for the domestic market.
- Growth opportunities, where available, are primarily in international markets.

# Porter's Five Forces

Industry Structure is a function of:

Buyer Power

Supplier  
Power

Threat of New  
Entrants

Threat of  
Substitutes

Degree of  
Rivalry

# Porter's 5 Forces Analysis

- Bargaining Power of Buyers – Low
  - Consumers expect stores to carry these products.
  - These products drive consumer traffic for stores and are necessary for profitability.
- Bargaining Power of Suppliers – Low
  - In many cases there are multiple suppliers.
  - Can be sourced globally
- Threat of New Entrants – Low
  - Very well known brands are a high barrier to entry.
  - Established access to market through supplier networks.

# Porter's 5 Forces Analysis

- Threat of Substitute Products – Low
  - Typically few substitutes available.
  - Demand is fairly consistent over time.
- Rivalry – High to Very High
  - Typically only a few major competitors in each product line.
  - Coke v. Pepsi.

# Economic Analysis

# Driving Factors

- Consumers:

1. Consumer Price Index
2. Consumer Confidence Index
3. Disposable Income
4. Unemployment rate

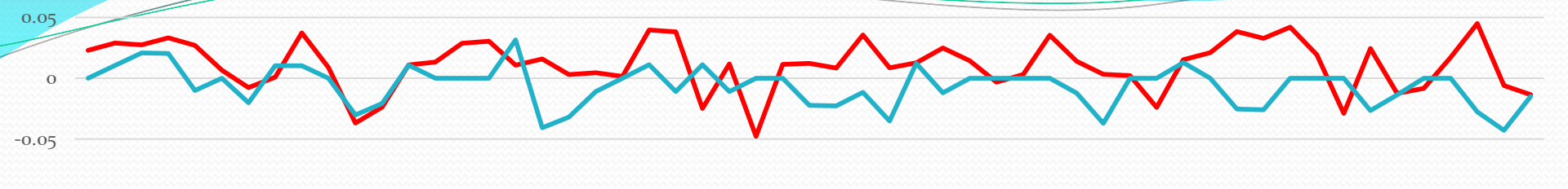
- Market:

- S&P 500 Index

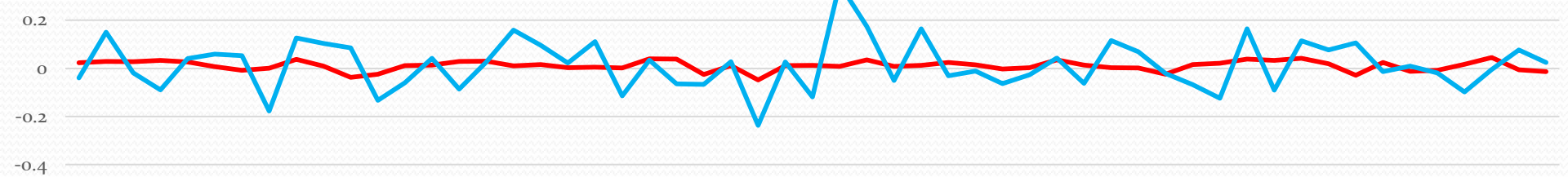
- Companies:

1. Financing cost: treasury bill and bond rate
2. Production cost: gasoline, electricity
3. Import/export: foreign exchange rate (USD/RMB)

**Vs Unemployment**

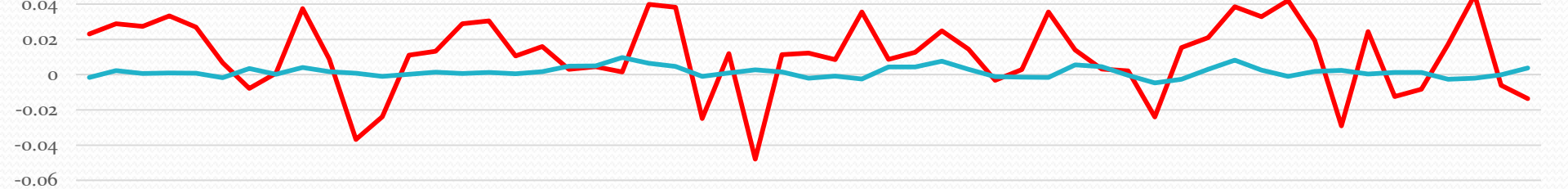


**Vs Consumer Confidence Index**

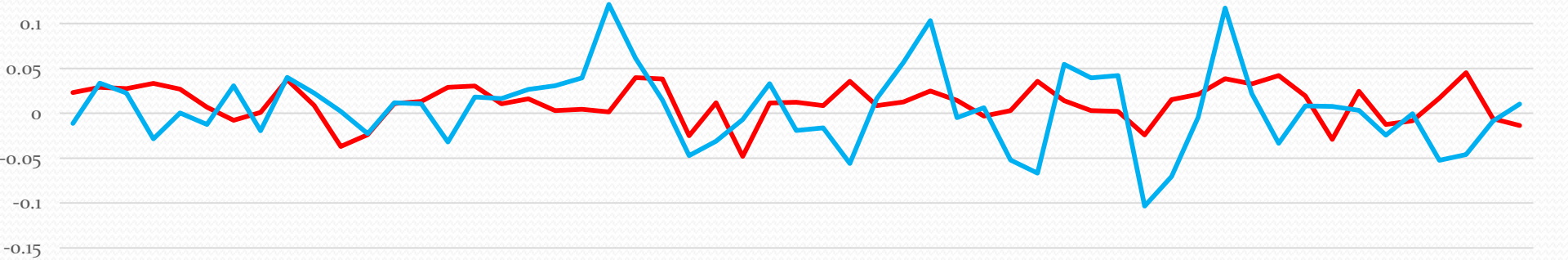


2009-Jul 2009-Sep 2009-Nov 2010-Jan 2010-Mar 2010-May 2010-Jul 2010-Sep 2010-Nov 2011-Jan 2011-Mar 2011-May 2011-Jul 2011-Sep 2011-Nov 2012-Jan 2012-Mar 2012-May 2012-Jul 2012-Sep 2012-Nov 2013-Jan 2013-Mar 2013-May 2013-Jul 2013-Sep 2013-Nov 2014-Jan

**V.S. Consumer Price Index**

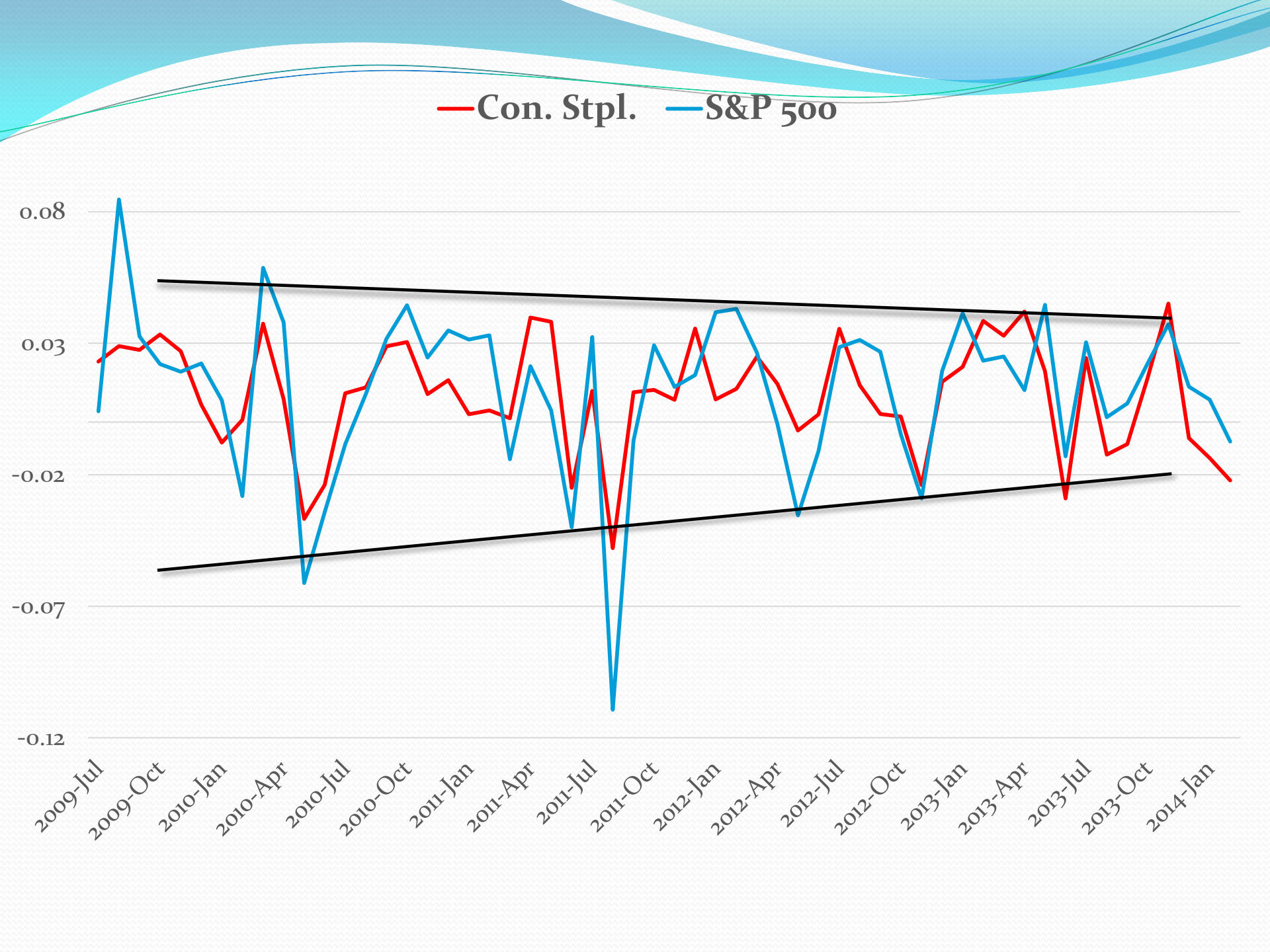


**Vs Gasoline Price**





— Con. Stpl. — S&P 500



# From 1994 - 2014

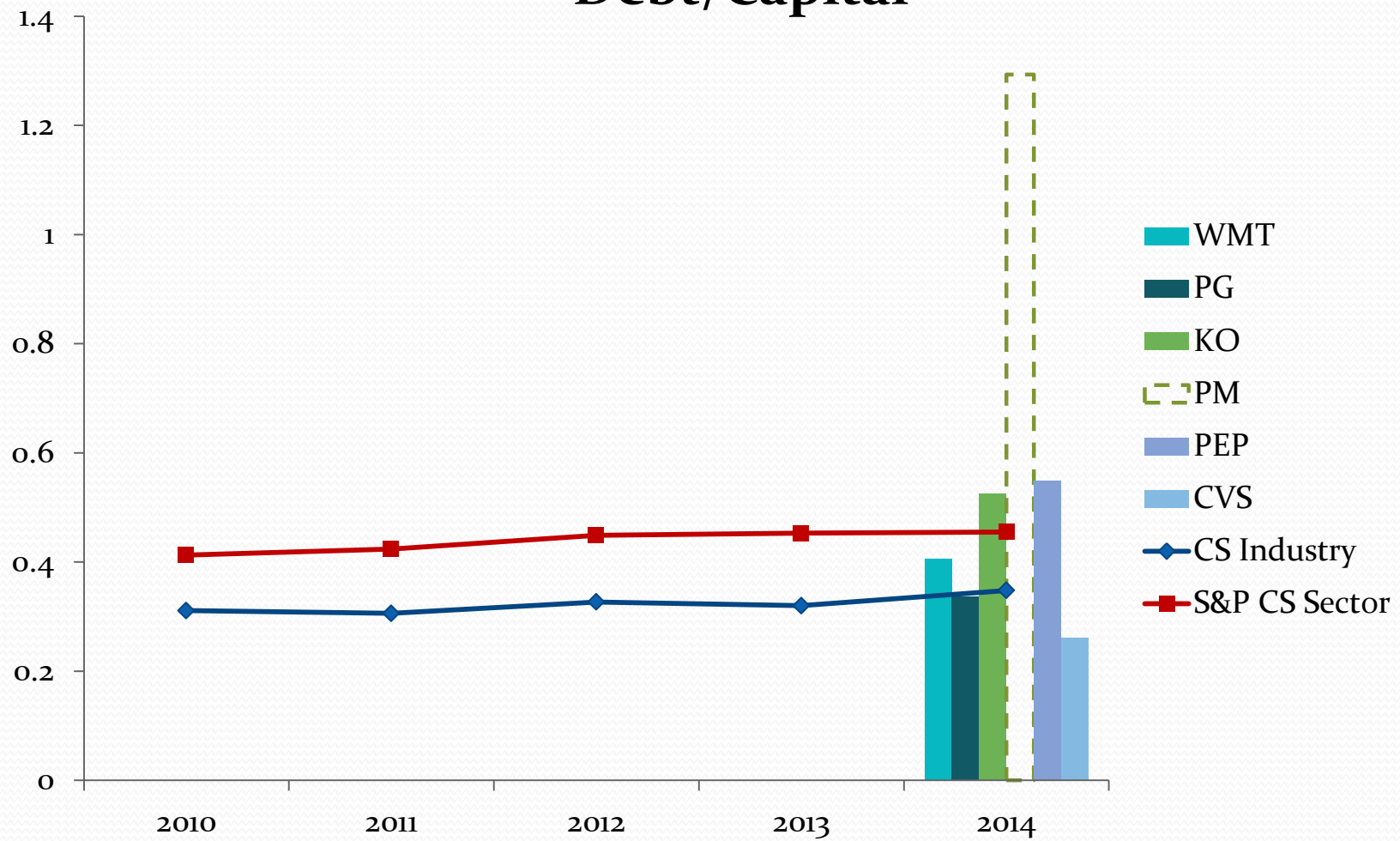
## SUMMARY OUTPUT

	Total	Before Crisis	After Crisis
Multiple R	0.619694	0.502762	0.861343
R Square	0.384021	0.25277	0.741912
Adjusted R Square	0.381411	0.24801	0.738002
Standard Deviation	0.025057	0.028757	0.015497
<b>Coefficient</b>	<b>0.51</b>	<b>0.49</b>	<b>0.55</b>

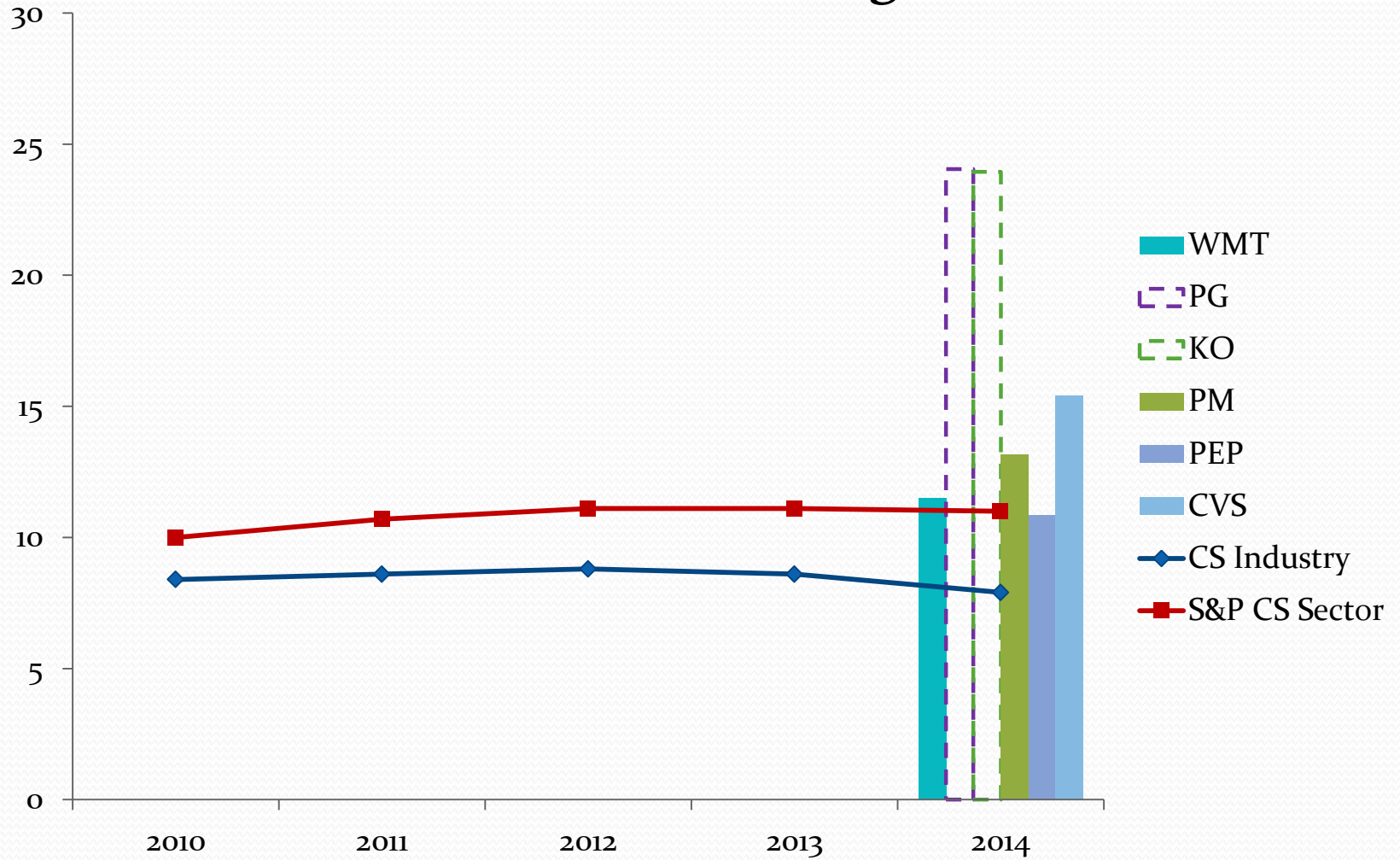
	1994-2014	Before Financial Crisis	During	After
Raw Beta	0.5194	0.4967	0.5741	0.4834
Correlation	0.6198	0.5028	0.9090	0.7075

# Financial Analysis

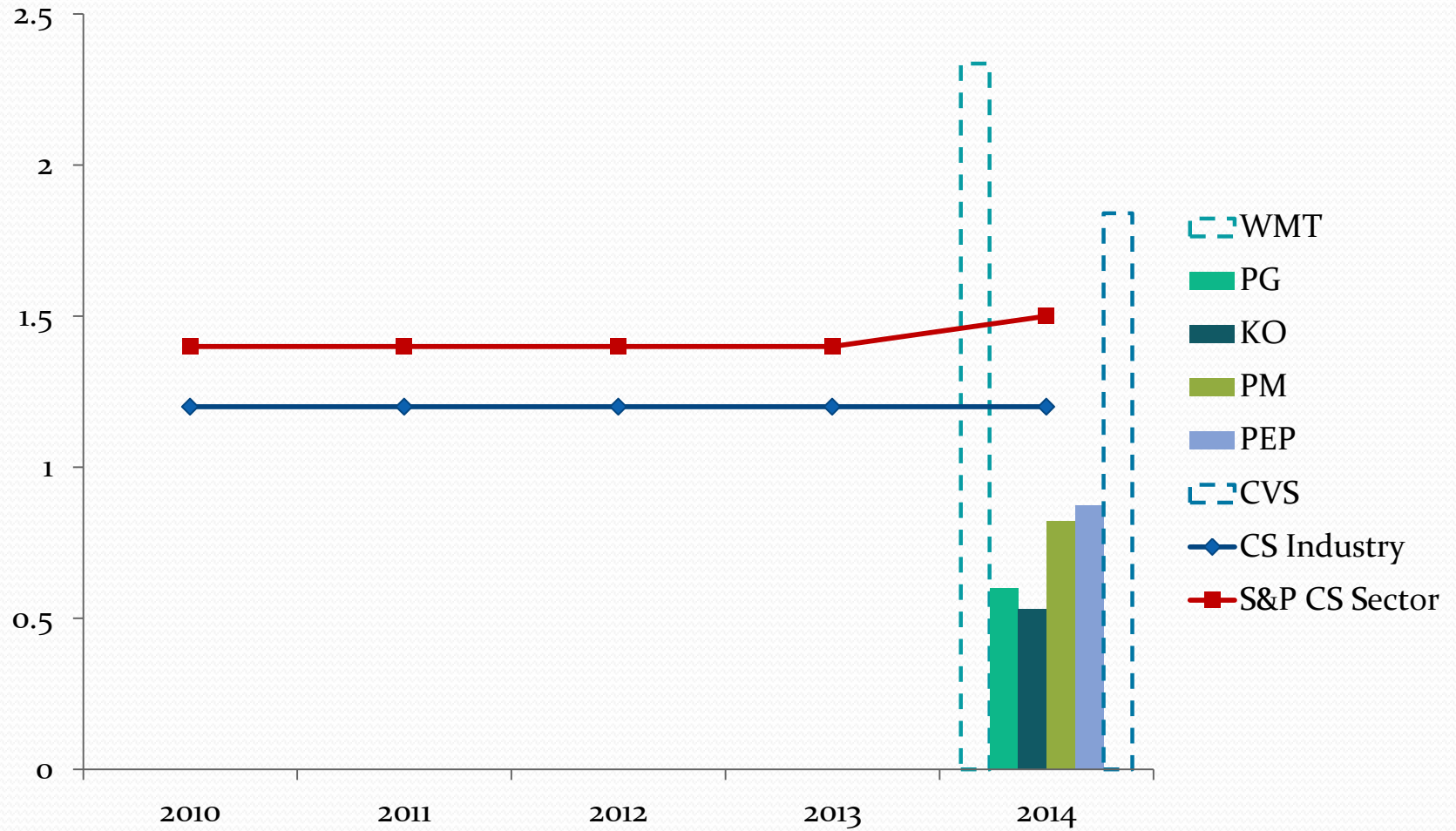
# Debt/Capital



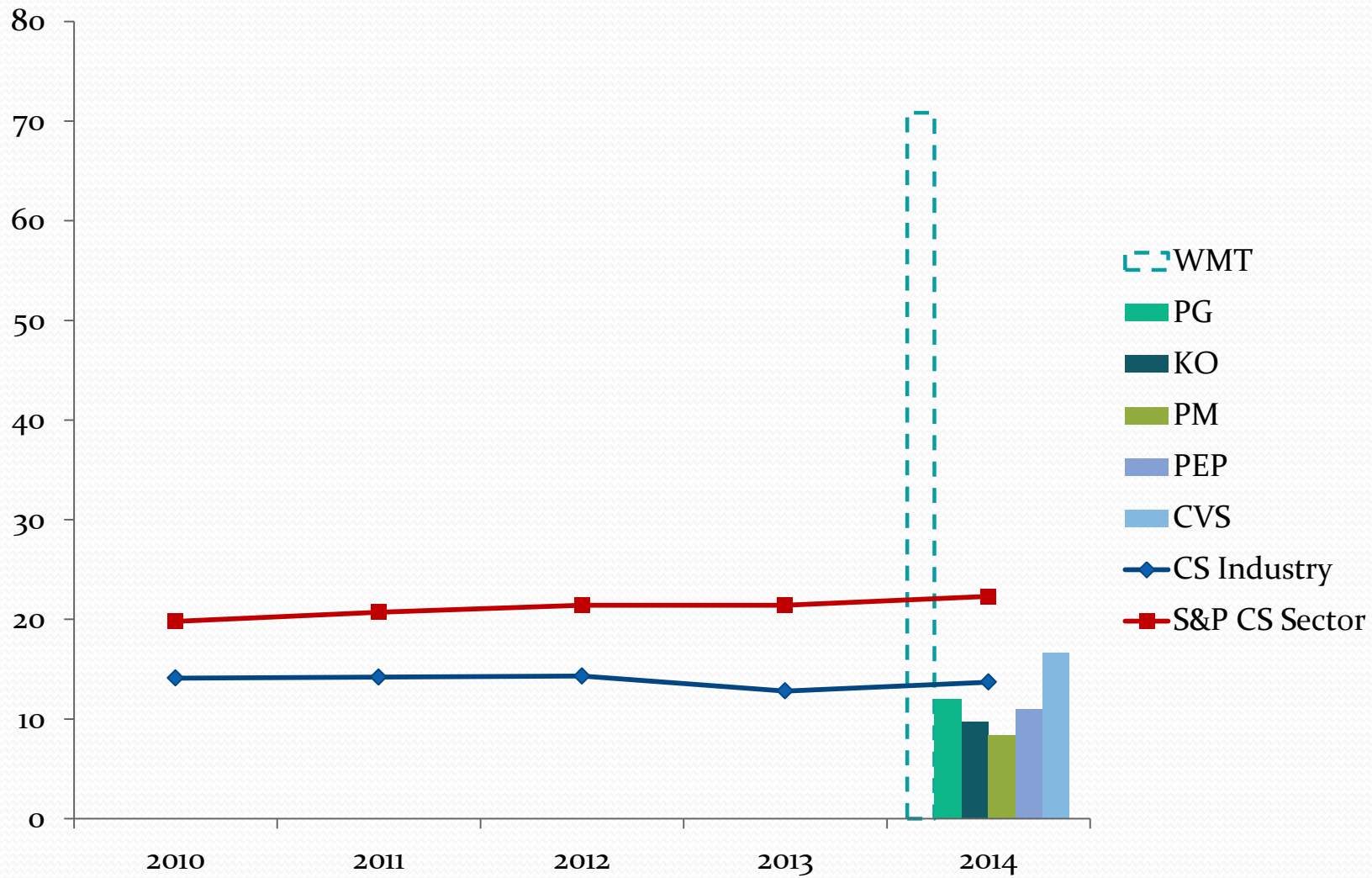
# Interest Coverage



# Asset Turnover



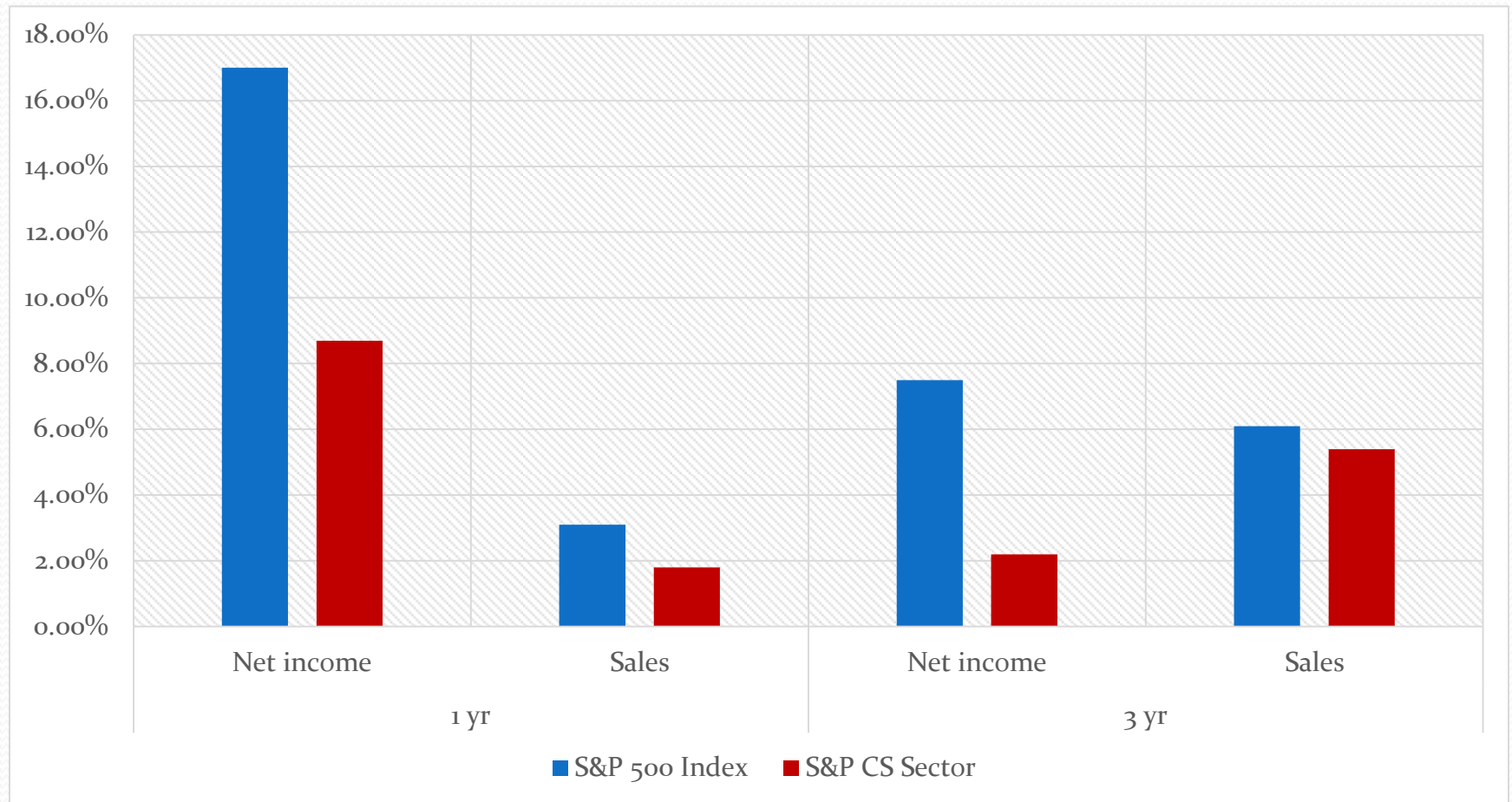
# A/R Turnover



FY 2013	S&P 500	Con. Stpl. Sector	Performance
Sales Growth	3.10%	1.80%	Don't like.
Net Income Growth	17.00%	8.70%	
Opt. Margin	14.19%	9.90%	Don't like.
Net Margin	9.56%	6.61%	
Quick Ratio	0.365	0.340	Ok.
D/E Ratio	1.37	1.03	
Interest Coverage	11.59	12.91	
Receivable Turnover	4.36	12.53	Like.
Inventory Turnover	8.99	6.87	
Asset Turnover	0.34	0.97	
ROA	3.20%	8.80%	Like.
ROE	14.90%	22.90%	

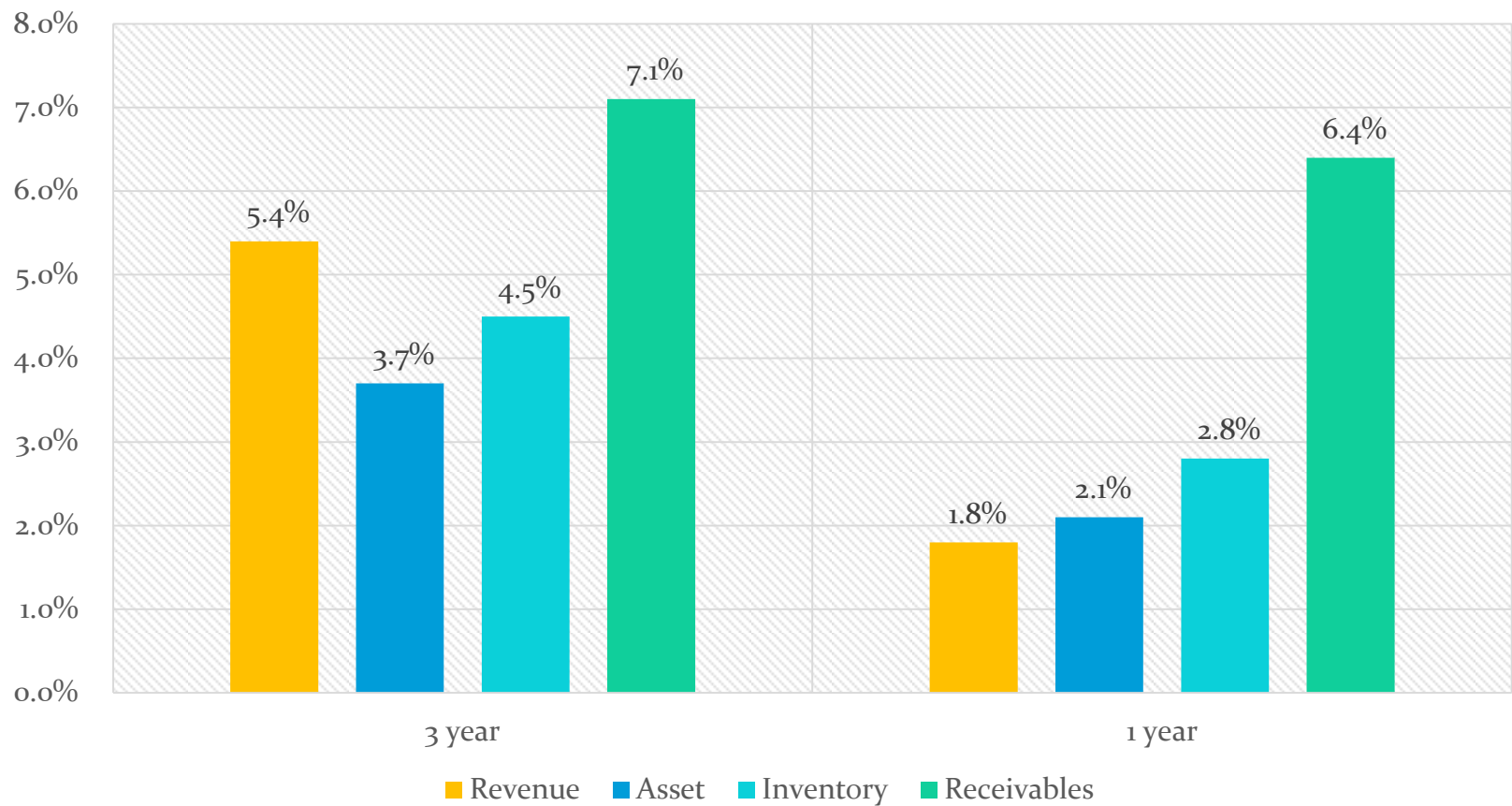


# Growth: Sector vs Whole

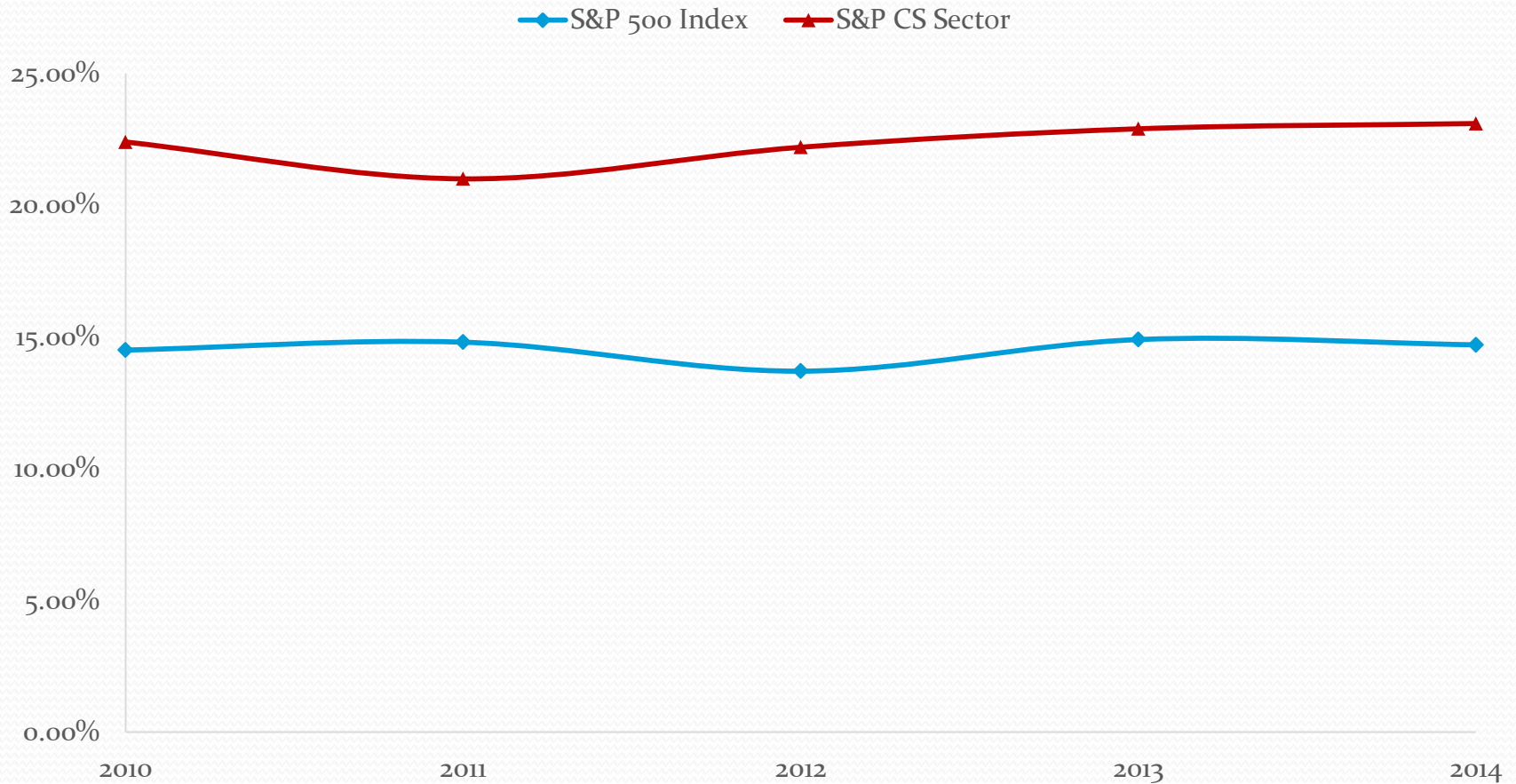


# Warning!

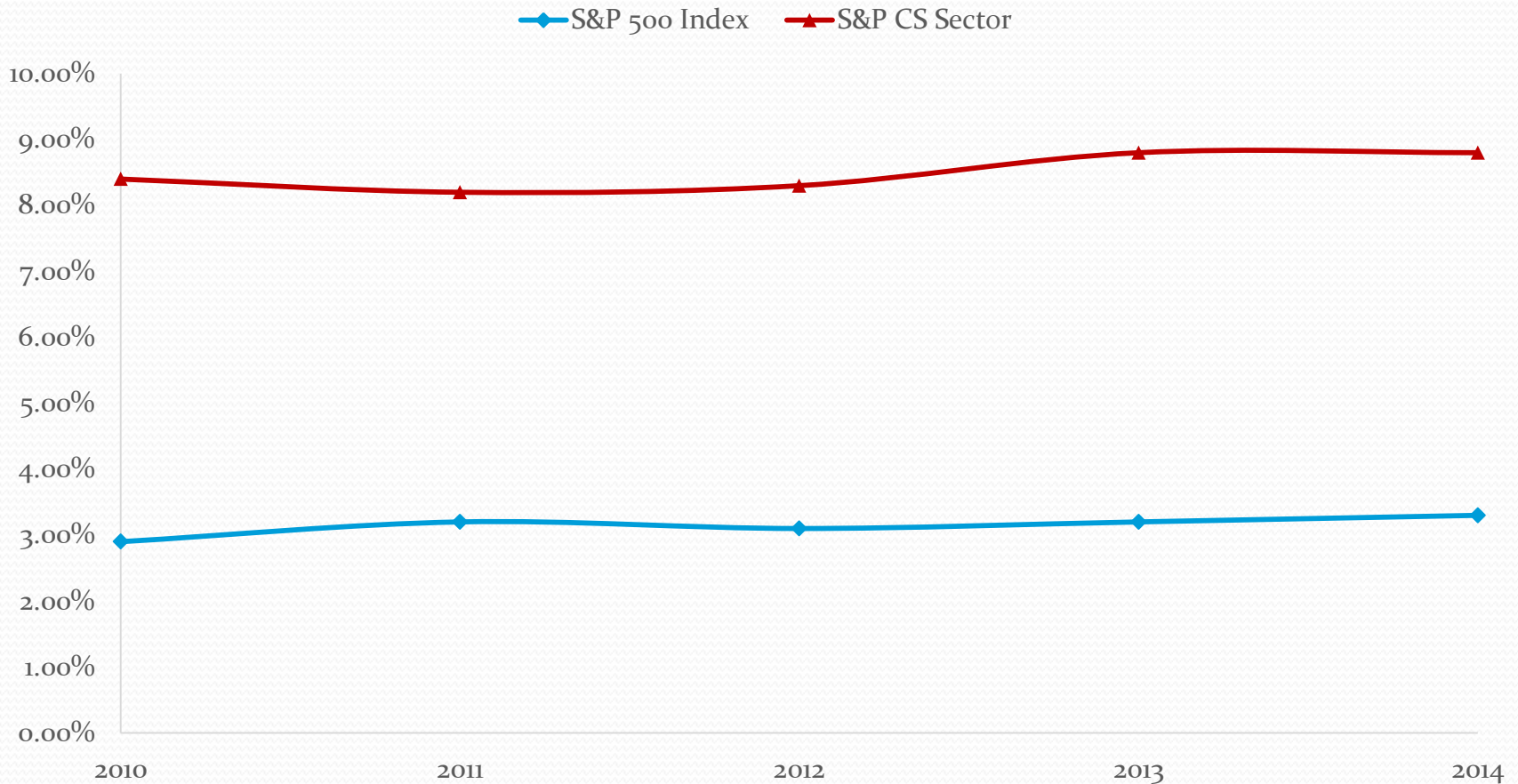
## Growth Benchmark



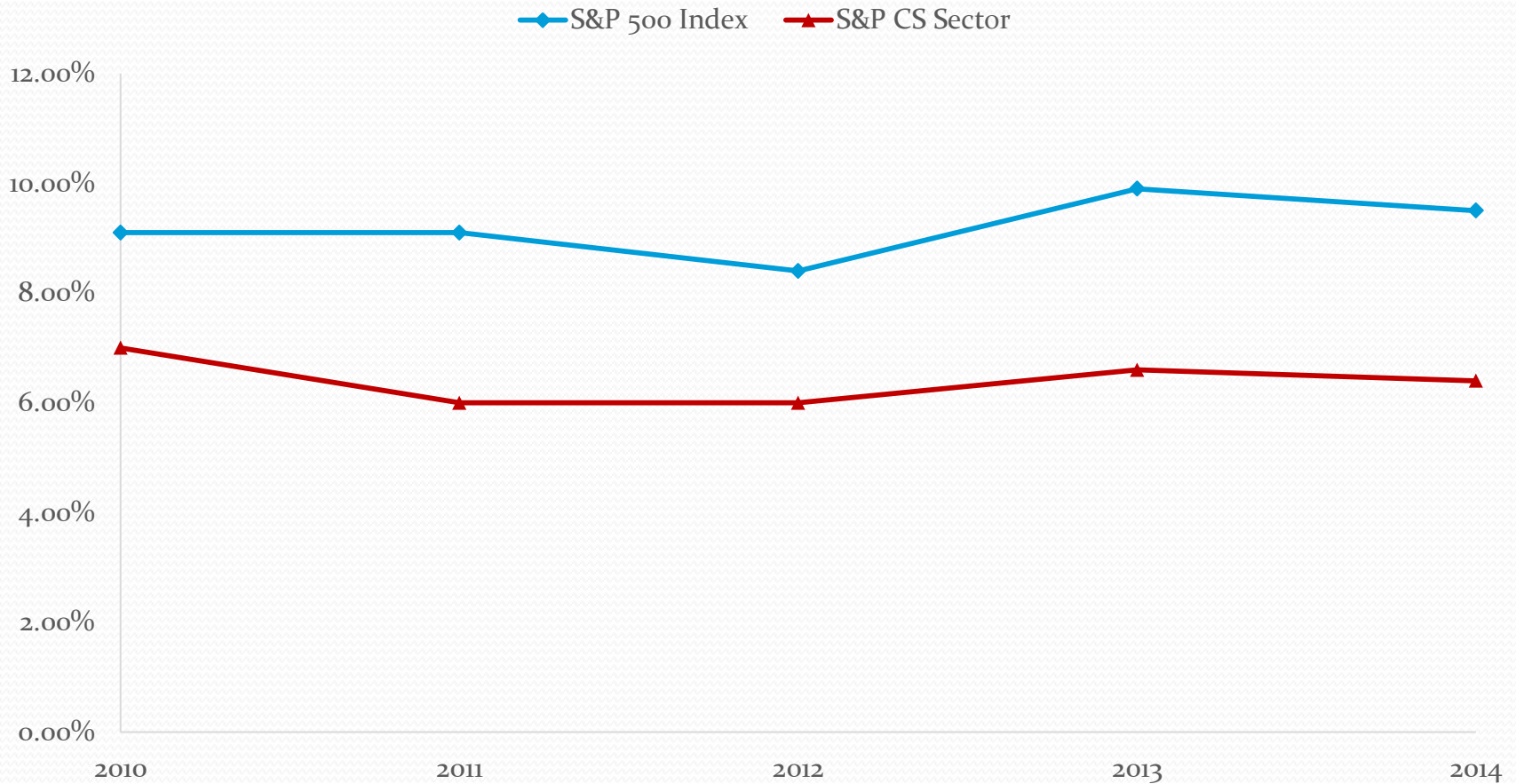
# Management Efficiency: ROE



# Management Efficiency: ROA



# Profitability: Net Margin



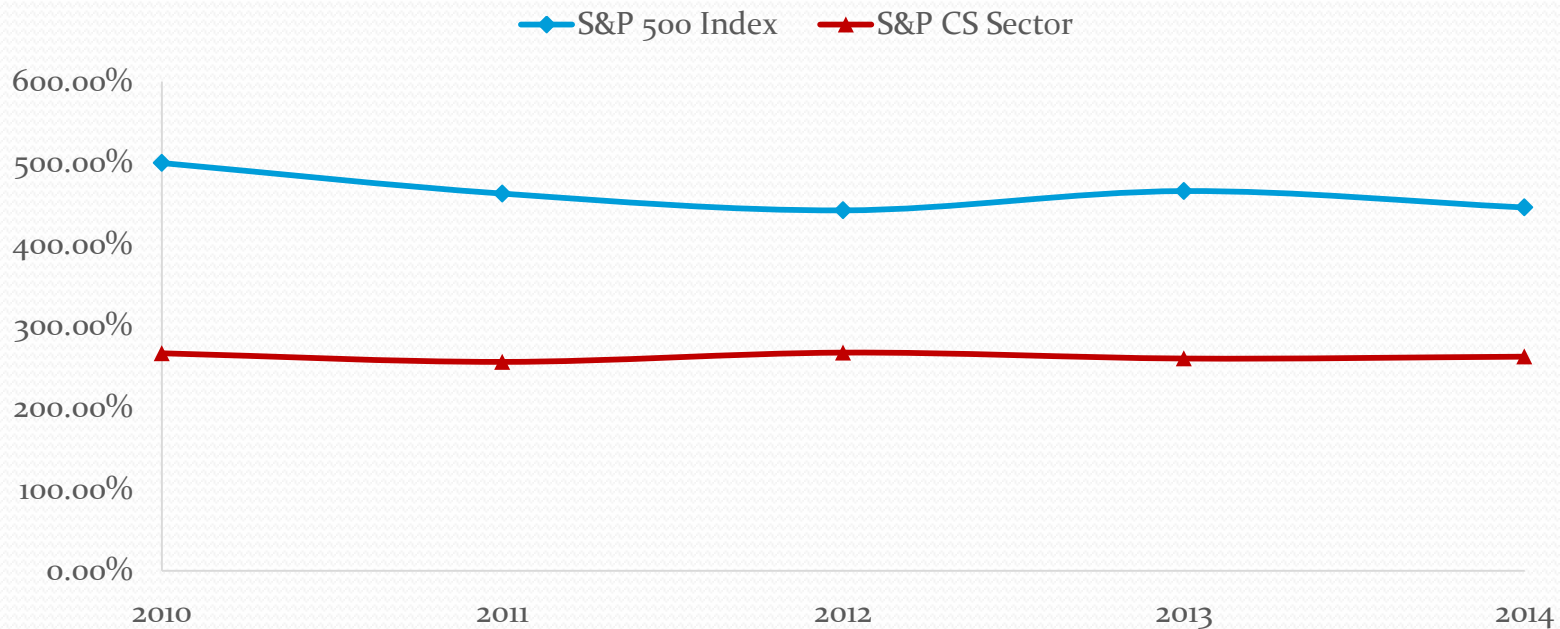
# DuPont Analysis

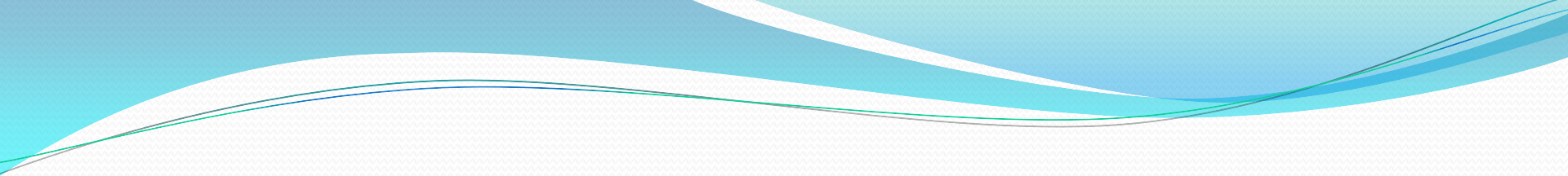
ROE = Profit Margin (Profit/Sales)

\* Total Asset Turnover (Sales/Assets)

\* Equity Multiplier (Assets/Equity)

## ASSET/EQUITY



- 
- Highly competitive:
    - Differentiated value
  - Healthier consumer taste:
    - lower calorie beverages and non-carbonated beverages
    - electronic cigarettes

# Valuation Analysis



Moves toward historic average

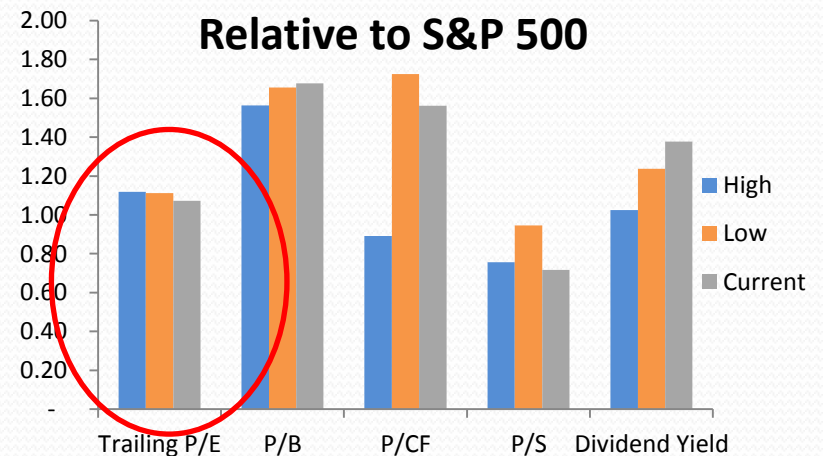
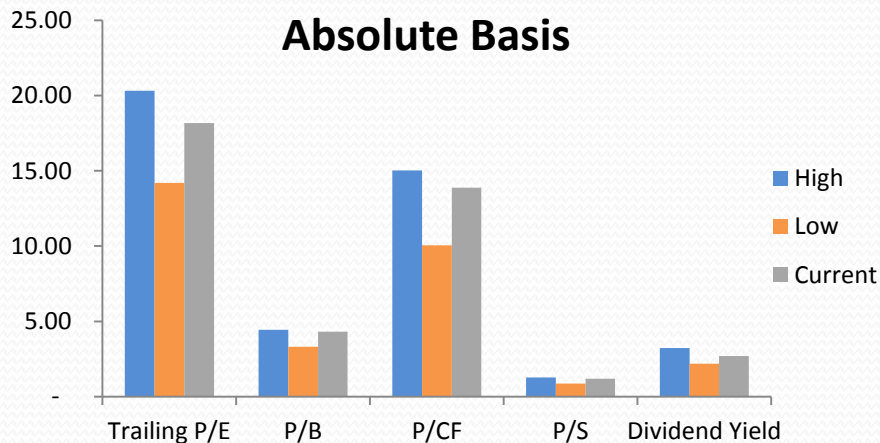
## Absolute Basis

S5CONS-Abs	High	Median	Low	Current	Forward
Trailing P/E	20.32	17.08	14.19	18.18	17.38
P/B	4.44	3.86	3.31	4.31	4.17
P/CF	15.02	12.59	10.05	13.88	13.77
P/S	1.27	1.09	0.86	1.19	1.16
Dividend Yield	3.23	2.78	2.19	2.70	2.86

Low end is higher than High end → Very defensive

## Relative to S&P500

S5CONS-Rlt	High	Median	Low	Current	Forward
Trailing P/E	1.12	1.07	1.11	1.07	1.11
P/B	1.56	1.63	1.66	1.68	1.73
P/CF	0.89	1.28	1.72	1.56	1.21
P/S	0.76	0.78	0.95	0.72	0.73
Dividend Yield	1.03	1.31	1.24	1.38	1.36



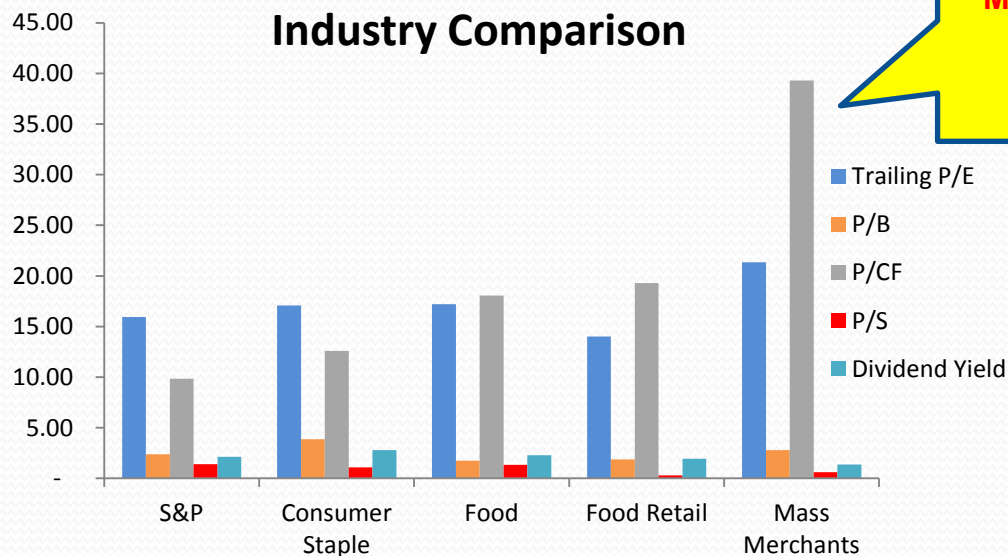


**Outperformed in 2013, now returning to below S&P**



**Co-moves with S&P, returning to Historic Average**

	S&P	Consumer Staple	Food	Food Retail	Mass Merchants
Trailing P/E	15.96	17.08	17.20	14.02	21.35
P/B	2.37	3.86	1.74	1.88	2.80
P/CF	9.83	12.59	18.06	19.29	39.31
P/S	1.39	1.09	1.33	0.30	0.60
Dividend Yield	2.12	2.78	2.30	1.95	1.39



**Mass Merchants has higher ratio**

# Recommendation

- **The SIM portfolio should continue to reduce the weight of the Consumer Staples sector.**
  - We recommend decrease the weight.
  - We recommend allocating those funds to other industries such as health care.
- **Rationale**
  - The sector is comprised of very defensive stocks, whose beta has been decreasing.
  - Given the positive market outlook, consumer staple will underperform compared to other sectors with more cyclical exposure.
  - After the market boom in 2013, multiples are returning to historic average level.