



Pepsi Calls Accumulate, Relative Strength Name in Consumer Goods

Ticker/Price: PEP (\$124.65)

Analysis:

Pepsi (PEP) with some buyers active in June \$130 calls last week, a name that has seen opening sales in April \$135 and May \$130 calls recently expecting limited upside or willing to be called away on a stock position. PEP has some notable buys sitting in open interest on the call option side in June and July expirations. On the chart PEP shares have held up well remaining in a longer term uptrend and bounced sharply off 2017-2019 support. Shares are now back above the 2019 breakout level and lack much resistance to run up to \$130 near-term. The \$172B consumer goods leader trades pricey at 19.9X Earnings, 14.6X EBITDA and 2.6X Sales with a 3.07% dividend yield, a name that is likely seeing a demand surge on pantry stockpiling. PEP has a large portfolio of dominant brands with 54% Snacks and 46% Beverages. PEP has guided 2020 to 4% organic revenue growth and 7% core EPS growth while it continues to invest in the business, has \$2B of repurchases planned, and expects to strengthen the portfolio via more acquisitions. Analysts have an average target of \$140 on shares with short interest low at 0.9% of the float. CSFB upgraded shares to Outperform on 3-27 with a \$144 target, citing a unique opportunity to own a high-quality asset at a discount with plenty of growth drivers after investing \$12B the past two years in higher advertising, capital spending and M&A. It sees PEP protected well near-term with a portfolio that skews favorably to the current environment and it also benefits from direct-store-delivery capabilities at a time of supply shocks. PEP announced a \$3.85B deal for Rockstar Energy Beverages earlier in March to further position it in the strongly growing energy drink space. Goldman out last week with a Conviction Buy rating and \$140 target noting stable fundamentals and a positive reward/risk. Morgan Stanley raised shares to Overweight with a \$132 target on 3/23, RBC also upgraded to Outperform with a \$153 target, and Guggenheim raised to Buy with a \$134 target. Hedge Fund ownership fell 1.6% in Q4 filings, Magellan and Fundsmith top holders.

Hawk Vision:



Hawk's Perspective: PEP is a quality name that should maintain its quality results, a spread like the May/June \$130 calendar call spread under \$2 looks like an attractive way to play it here.

Confidence Ranking: \$\$