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| **Company: Starbucks** | Ticker: SBUX Current Price: $57.63 | Industry: Consumer Discretionary | Sub Industry: Restaurants  |
| Target Price: $68Stop Loss: $46.152 Week High/ Low: $42.05-64.00 | TTM P/E: 34.3Forward P/E: 29.7EPS: $1.63 | Beta: 0.77Credit Rating: A-Rating Outlook: Stable | Market Cap: $85.18(B)Avg Vol (3 Month): 10.66 milDividend Yield: 1.43% |

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| **Company Background:**  |
| Starbucks is a leading retailer of specialty coffee in the world, operating in 70 countries. The company sells high-quality coffees, tea, and other beverages along with a variety of fresh food items through company-operated and licensed stores. It has 8,671 company-owned stores in the Americas and 3,564 elsewhere. Also has 10,808 licensed stores worldwide. Revenue from retail licensees was approximately 10% of total revenues. |
| **Industry Outlook:**  |
| Our fundamental outlook for the restaurants sub-industry is positive. We project low single digit same-store sales growth in 2015. We think the U.S. economy will expand at a moderate pace. For the quick-service restaurant segment, we expect same-store sales to rise 2%-3% for the year. We see further growth opportunities in international markets, in particular China, with Yum! Brands, McDonald's and Starbucks opening more stores in that country.  |
| **Investment Thesis:**  |
| * From the perspective of a value investor, I’m enthusiastic about Starbucks’ future. The company's strengths can be seen in multiple areas, such as its revenue growth, good cash flow from operations, largely solid financial position with reasonable debt levels by most measures, solid stock price performance and notable return on equity.
* When many large restaurant chains are experiencing a slowdown at home and overseas, Starbucks’ revenue increased by 16.5% in 2015, and we project total revenue growth of 13% in 2016;
* The company’s new Mobile Order and Pay (MOP) program, which allows customers to pre-order their beverages and food, successfully solves the long wait time issue, especially in the urban center. And this MOP opportunity is a big reason why we think that its revenue can keep growing in 2016;
* It keeps expanding, and plans to open 1800 new stores this year, 700 in America, 900 in China/Asia Pacific, and 200 in EMEA;
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| **Investment Risks:**  |
| * A worse-than-expected slowdown in global consumer discretionary spending;
* Higher- than-expected inflation in coffee prices;
* Potentially severe currency headwinds;
 |
| **3-5 take away from last quarter investor call transcript:**  |
| * The company repurchased 4.5 million shares of common stock in Q1 FY16; 48 million shares remain available for purchase under current authorizations;
* I strongly believe that the Chinese government's commitment to true economic reform is genuine and that its goal of doubling 2010 per capita income by 2021 resulting in a middle-class in China approaching 600 million Chinese people, or almost twice the size of the entire current U.S. population, is attainable.
* Technology innovation is further strengthening our brand, improving our efficiency and in-store execution, increasing our profitability and most importantly, enabling us to deliver an elevated Starbucks experience to our customers;
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| **Financial Performance:** | **Discounted Cash Flow**  |
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|  | 2012 | 2013 | 2014 | 2015 | 2016Est | 2017Est |
| Revenue | 13,299.5 | 14,866.8 | 16,447.8 | 19,733.0 | 21,529.4 | 23,449.0 |
| Operating Profit | 1,997.4 | -325.4 | 3,081.1 | 3,743.5 | 4,310.7 | 4,928.8 |
| Operating Margin | 15.02 | -2.19 | 18.73 | 18.97 | 20.02 | 21.02 |
| Net Income  | 1,383.8 | 8.3 | 2,068.1 | 2,461.7 | 2,819.5 | 3,232.3 |
| Revenue Growth % | 13.67 | 11.78 | 10.63 | 11.87 | 12.35 | 8.92 |
| EBITDA% | 19.38 | 2.22 | 23.28 | 23.86 |   |   |
| Operating Profit % | 15.02 | -2.19 | 18.73 | 18.97 | 20.02 | 21.02 |
| Net Income Margin | 10.40 | 0.06 | 12.57 | 12.48 | 13.13 | 13.86 |
| Debt to Equity | 10.75 | 28.99 | 38.84 | 39.24 |   |   |
| EPS | 0.92 | 0.01 | 1.38 | 1.64 | 1.88 | 2.19 |
| PE Ratio  | 28.33 | 35.15 | 28.89 | 35.44 | 30.48 | 26.36 |
| Current Ratio | 1.90 | 1.02 | 1.37 | 1.07 |   |   |
| ROE | 29.15 | 0.17 | 42.41 | 41.88 | 42.62 | 49.01 |
| ROA | 17.76 | 0.08 | 18.57 | 19.46 | 23.07 | 23.11 |
| Dividend Per Share | 0.36 | 0.45 | 0.55 | 0.72 | 0.82 | 0.94 |
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|  | 2010-15 | 2016-20 |
| Avg Revenue growth  | 12% | 12% |
| Avg EBITDA Margin  | 21% | 26% |
| Avg NOPAT Margin  | 11% | 15% |
| Cost of Debt | 1.5% |
| Tax Rate | 32.6% |
| Cost of Equity  | 9.4% |
| WACC | 9.2% |
| Perpetuity Growth Rate (Terminal) | 4.4% |

Analyst Opinion

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| --- | --- | --- |
| Buy: 24 | Hold: 5 | Sell: 0 |

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|  | Rating  | Target  |
| S&P Net Advantage  | 4STAR | $68 |
| Morning Star | 4STAR | -- |
| Value Line  | 1 | $65-80 |

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| **Relative Valuation** | **Total Return** |
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| FY2015 | Krispy Kreme | Dunkin | Industry | SBUX |
| P/E |  28.08  |  24.78  |  29.44  |  35.44  |
| P/B |  3.66  |  |  8.99  |  14.31  |
| Dividend Yield  |  -  |  2.44  |  1.23  |  1.25  |
| PEG Ratio  |  1.04  |  1.48  |  1.41  |  1.70  |
| EPS |  0.52  |  1.80  |  1.32  |  1.64  |
| Rev Growth (1 Yr) |  6.52  |  8.31  |  10.44  |  16.51  |
| NI Growth (1 Yrs)  |  (12.25) |  (40.33) |  (6.42) |  33.33  |
| Operating Margin  |  10.39  |  21.33  |  17.14  |  19.69  |
| Debt / Equity  |  4.69  |  |  21.96  |  39.24  |
| Market Cap |  905.80  |  4,076.14  |  30,054.95  |  85,182.90  |

**Sources: Bloomberg, S&P NetAdvantage, VLIS, Morningstar**  |

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|  | SBUX | Sector  | S&P 500 |
| YTD | -3.68% | -6.64% | -5.43% |
| Last 3 Years  | 30.17% | 14.49% | 10.5% |
| Last 5 Years  | 29.82% | 14.77% | 9.83% |

**CSR Characteristics**

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|  | SBUX | Industry  |
| ESG Disclosure Score |  50.72 |  27.8 |
| Governance Disclosure Score |  60.71 |  54.76 |
| Social Disclosure Score |  29.82 |  15.79  |
| Environmental Disclosure Score |  57.29 |  31.77 |

**Prepared By: Jifeng Hu, 2/18/2016** |