

Company: Entergy Corporation	Ticker: SBUX	Current Price: \$ -	Sector: Consumer Discretionary	Industry:
Target Price: \$ 69.00	CY P/E: 30.08		Beta: 0.95	Market Cap:
Stop Loss: \$ 45.05	Forward P/E: 29.19		Credit Rating: A2	Avg Vol:
52 Week High / Low: \$64.00 / \$52.63	EPS: \$ 1.77		Rating Outlook: A2	Dividend Yie

Company Background:

Starbucks corporate retails, roasts and Starbucks Corporation retails, roasts, and provides its own brand of specialty coffee. The Company operates retail locations worldwide in 68 countries and roughly half company owned and half licensed. It sells a variety of coffee and tea and also goods and services under brands including Teavana, Tazo, and Seattle Best coffee. Starbucks also has a channel to sell bottled coffee drinks, K cup and instant coffee VIA.

Industry Outlook:

Restaurant industry accounts for 73% of Hotels, Restaurant and Leisure industry under consumer discretionary sector. Though it experienced low to mid single digit growth in 2Q 2016, it is positive, benefiting from the increased consumer confidence, wage growth, individual disposable income and consumer spending. Companies, such as McDonald and Yum! brands, are pursuing actively expanding into emerging markets, such as China and India. We will see a projected 5% increase in restaurant industry to 783 billions in 2016 and ROE above 25% in 2016 and 2017.

Investment Thesis:

- 1) Though same store sales dropped to 4% in 3Q 2016 from 6% in 2Q, management have confidence in pulling up this figure above 5% as in the 25 consecutive quarters before 3Q.1900 in fiscal year 2016, with 50% in China, 40% from Americas and 10% from EMEA regions. Company's management is projecting a 10% revenue growth in fiscal year 2016, but we can see a greater upward trend. Company will soon recover from adjustment period and new loyalty program will attract more valuable customers.
- 2) Revamped Rewards Program from transaction based to sales based will help boost the sales in near term. Loyalty program has increased 18% from year to year with 12.3 millions active members.
- 3) The Initiative of Mobile Order and Pay (MOP) contributed to sales significantly within this year, reducing waiting time and improving efficiency. For now 25% transactions coming from mobile app.
- 4) Company also engaged in pushing channel development strategy. Two major products, ready-to- drink bottled beverage and single serve coffee are two pillars in this area in expanding coffee and food offering will also contribute to revenue.

Investment Risks:

- 1) An unexpected consumer discretionary spending
- 2) Strong dollar caused by potential rate hike will harm revenue in multinational company.
- 2) The increase in commodity price and coffee price.

Discounted Cash Flow Analysis

(Millions)	2017	2018	2019	2020
Free Cash Flow	2,822.18	3,649.73	4,278.00	4,772.00
Terminal value				126,029.74
Total flows	2,822.18	3,649.73	4,278.00	130,801.74
PV of flows	2,640.02	3,193.78	3,501.93	100,161.94
Enterprise value	109,497.67			
Current outstanding debt	8,109.20		WACC	6.90%
Equity value	101,388.47		Growth rate	3.00%
Current shares outstanding	1,466.60			
Equity value per share	69.13			

Past performance



Financial Performance

(\$millions)	2012	2013	2014	2015	Est 2016	Est 2017
Revenue	\$ 13,299.50	\$ 14,866.80	\$ 16,447.80	\$ 19,162.70	\$ 21,306.20	\$ 23,114.40
EBIT	\$ 1,997.40	\$ (325.40)	\$ 3,801.10	\$ 3,601.00	\$ 4,172.10	\$ 4,756.50
EBITDA	\$ 2,578.00	\$ 3,114.30	\$ 3,809.30	\$ 4,548.40	\$ 5,161.50	\$ 5,686.20
Net Income	\$ 1,384.00	\$ 8.30	\$ 2,068.00	\$ 2,757.00	\$ 2,810.40	\$ 3,161.20
Revenue Growth %	13.70%	11.80%	10.60%	16.50%	11.20%	8.49%
EBITDA%	19.38%	20.95%	23.16%	23.74%	24.20%	25.00%
Operating Profit %	15.02%	-2.19%	18.73%	18.79%	19.58%	20.58%
Net Income Margin	10%	0.06%	13%	14%	13%	14%
Total Debt/Equity	10.8	29.0	38.8	40.3	NM	NM
EPS	\$0.90	\$1.10	\$0.30	\$1.65	\$1.89	\$1.89
PE Ratio	28.33	35.15	28.89	35.19	28.28	24.73
Current Ratio	1.90	1.02	1.37	1.19	NM	NM
ROE	29.15	0.17	42.41	49.73	42.78	49.48
ROA	17.760	0.080	18.57	23.77	27.12	28.07
Dividend Per share	0.36	0.45	0.55	0.68	0.82	0.94
FCF	894.1	1757.1	-553.1	2445.4	2631	2816.2

*Fiscal year ends at 9/30

Discounted Cash Flow

	2010-2015
Avg Revenue growth	11.2%
Avg EBITDA Margin	19.5%
Avg Net Income growth	18.8%
Cost of Debt (Moody's 10 Year Corp yield)	4.5%
Tax Rate	21.0%
Cost of Equity (CAPM)	10.5%
Average D/E ratio	20.5%
WACC	6.9%
Perpetuity growth rate	3.0%

Analyst Opinion:

Buy: 26	Hold: 6
Moody's	A2
S&P Net Advantage	Buy
Value Line	Timeliness: 3

Relative Valuation

	SBUX	Dunkin Brands	McDonald's	Panera Bread	Industry Avg.*
Forward 12M P / E	25.16	21.85	19.53	22.73	24.6
P/B	13.67	NM	153.10	12.21	15.37
Dividend Yield	1.50%	2.25%	3.10%	0.00%	2.39%
PEG Ratio	1.30	1.60	1.80	1.50	1.55
TTM EPS	1.78	\$1.72	1.82	6.67	2.92
Revn Grth	16.51%	8.31%	-7.39%	6.03%	18.05%
EBITDA Grth	18.42%	-5.10%	-9.30%	-5.76%	27.75%
Operating Margin	18.86%	46.39%	29.04%	9.79%	15.52%
Debt / Equity	40%	-	340%	81%	455.90%
Market Cap	78.40b	4.68b	96.81b	4.58b	9.28b

Total Return

	SBUX	Restaura
YTD	-10.08%	-
1 Year	-9.85%	-
Last 3 Years	12.98%	-
Last 5 Years	22.82%	21.0%
Governance Disclosure Score	60.71	SBUX
ESG Disclosure:	36.36	
Social Disclosure Score	24.56	

Revenue TTM	20.52b	0.82b	25.18b	2.74b	6.69b
Price /Sales	3.86	5.88	4.11	1.72	3.04
Price / Cash Flow	27.85	24.72	22.81	34.56	39.11

Environmental Disclosure Score 29.17

Prepared by Yuqi Han (Oct 10, 2016) using Bloomberg
Capital IQ, Morning Star, Yahoo Finance

*Industry Avg. includes companies listed and Domino's Pizza Inc, Shake Shack and other 5 companies