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| **Company: Starbucks Corporation** | **Ticker: SBUX Current Price: $ 56.40** | **Industry: Consumer Discretionary**  |
| Target Price: $ 64Stop Loss: $46.5 (15%)52 Week High/ Low: $50.84 / $ 64.87 | TTM P/E: 26.1Forward P/E: 23.2EPS: $2.09 | Beta: 0.64Credit Rating: A (S&P)Rating Outlook: Positive | Market Cap: $78.9bAvg Vol (12 M): 9.3mDividend Yield: 1.83% |

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| **Company Background:**  |
| Starbucks Corporation retails, roasts, and provides its own brand of specialty coffee. The Company operates retail locations worldwide and sells whole bean coffees through its sales group, direct response business, supermarkets, and on the e-commerce. By end of June 2017 it operates total 26,736 stores in 75 countries. It is the world most ethical company 11 consecutive years (ETHISPHERE).  |
| **Industry Outlook:**  |
| According to International Coffee Organization (ICO) as more of the world turns to coffee, demand for coffee will [increase](http://www.wsj.com/articles/coffee-consumption-expected-to-jump-1424119985?mod=e2tw) by nearly 25% over the coming five years. Currently, consumer intake of coffee stands at 141.6 million bags of beans; but by 2020, coffee demand is slated to rise to 175.8 million bags (each weigh approximately 132 lb.). Asia is the fastest growing coffee consumption region. According to caffeineinformer.com, today China coffee annul per capital consumption is only about 0.025 kg, which is much lower than other countries in the region. For instance, Philippines 1.2 kg, Japan 1.5 Kg, Thailand 1.6 kg, Singapore 2.1 kg and South Korea 2.6 Kg. In the progress of urbanization in Asia, we expect coffee consumption will continue to grow. |
| **Investment Thesis:**  |
| **We give a buy rating with a target price of $64 (17% upside), which implies PE 26.14x of 2018 EPS (15% discount on PE 31.14x, 2012-2016 average). A 15% discount on 5 years average PE ratio is based on slower forecasted earnings growth (12.8%->10.0%).**We believe Starbucks will continue to expand globally, especially in its second biggest market China. We believe China will be the biggest growth engine for Starbucks for next 5-10 years. In the end of 2016, Starbucks launched a app with WeChat (800 million active users) called Say It With Starbucks. 1.5 million gifts consumed in first of week of launch. People can purchase or send a Starbucks gift within 25 seconds by using this app. Starbucks is not only well operating its core business, but also connecting with today’s technology. Today, in China Starbucks is operating over 2,600 stores, in 127 cities, and severs 5 million customer visits per week. From 2017 it opens a store in China every 15 hours. Starbucks plans to double the number of stores in China next 5 years |
| **Investment Risks:**  |
| * Economic conditions in the U.S. and international markets could adversely affect its business and financial results.
* Starbucks’ success depends substantially on the value of its brands and failure to preserve their value, either through its actions or those of business partners, could have a negative impact on its financial results.
* Incidents involving food or beverage-borne illnesses, tampering, contamination or mislabeling, whether accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could harm its business.
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| **Most recent quarter financial highlights (Apr- Jun 2017):**  |
| * Global comparable store sales increased 4%
* Consolidated net revenues grew 8% to a Q3 record $5.7 billion; up 9% after excluding $53.7 million of unfavorable foreign currency translation
* GAAP operating income increased 2% to $1.0 billion
* The company opened 575 net new stores globally, bringing total store count to 26,736 across 75 countries
* Starbucks Rewards membership up 8% year-over-year, to 13.3 million active members
* Mobile Payment increased to 30% of transactions in U.S. company-operated stores
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| **Financial Performance:** | **Discounted Cash Flow**  |
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| In Millions of USD | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 Est | 2018 Est |
| Revenue  | 13,299 | 14,866 | 16,447 | 19,162 | 21,315 | 22,504 | 24,753 |
| Operating Profit | 1,997 | -325 | 3,081 | 3,601 | 4,171 | 4,448 | 5,127 |
| Net Income  | 1,383 | 8 | 2,068 | 2,757 | 2,817 | 2,997 | 3,392 |
| Revenue Growth % | 13.7% | 11.8% | 10.6% | 16.5% | 11.2% | 5.6% | 10.0% |
| EBITDA% | 19.4% | 2.2% | 23.3% | 23.7% | 24.4% | 24.2% | 25.0% |
| Operating Profit % | 15.0% | -2.2% | 18.7% | 18.8% | 19.6% | 19.8% | 20.7% |
| Net Income Margin | 10.4% | 0.1% | 12.6% | 14.4% | 13.2% | 13.3% | 13.7% |
| D/E | 10.7 | 28.9 | 38.8 | 40.3 | 61.1 | n.a | n.a |
| EPS | 0.9 | 0.0 | 1.4 | 1.8 | 1.9 | 2.1 | 2.4 |
| PE Ratio  | 28.3 | 35.2 | 28.9 | 35.2 | 28.1 | 26.5 | 23.2 |
| Current Ratio | 1.9 | 1.02 | 1.37 | 1.09 | 1.05 | n.a | n.a |
| ROE | 29.2 | 0.17 | 42.4 | 49.7 | 48.2 | n.a | n.a |
| ROA | 17.8 | 0.1 | 18.6 | 23.8 | 21.1 | n.a | n.a |
| Dividend Per share  | 0.36 | 0.45 | 0.55 | 0.68 | 0.85 | 1.02 | 1.16 |
| FCF | 894 | 1,757 | -553 | 2,445 | 3,137 | 2,585 | 3,103 |

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|  | 2012-16 | 2017-21 |
| Avg Revenue growth  | 12.8% | 10% |
| Avg EBITDA Margin  | 22.7% | 22% |
| Avg Net Income Margin  | 12.6% | 13% |
| Avg Debt/Equity  | 115.6% | 115% |
| Avg FCF / Margin  | 22.68% | 24% |
| Cost of Debt | 1.9% |
| Tax Rate | 35% |
| Cost of Equity  | 9.6% |
| WACC | 9.2% |
| Perpetuity growth rate  | 3.0% |

**Analyst Opinion**

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| --- | --- | --- |
| Buy:26 | Hold: 8 | Sell:0 |
| Target Price Range | 55.48~75.00 |  |
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| Source: Bloomberg, Yahoo Finance |

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| **Relative Valuation** | **Total Return** |
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|  | Starbucks | Dunkin’  | Yum! | McDonald | Industry Avg.\* |
| P/E | 26.1 | 22.7 | 24.4 | 25.2 | 26.2 |
| P/B | 13.5 | n.a | n.a | n.a | n.a |
| Dividend Yield  | 1.83 | 2.44 | 1.87 | 2.40 | 2.60 |
| Revn Grth  | 11.24 | 2.21 | -1.15 | -3.11 | 3.50 |
| NI Grth  | 2.19 | 85.86 | 25.2 | 3.47 | -15.9 |
| Operating Margin  | 19.61 | 51.47 | 24.33 | 35.43 | 15.56 |
| Debt / Equity  | 143.3 | n.a | n.a | n.a | n.a |
| Market Cap | 78.9 B | 4.7 B | 25.9 B | 127.1 B | 12.7 B |
| Revenue TTM | 21.3 B | 0.8 B | 6,4 B | 24.6 B | 3.5 B |
| Net Income TTM | 3.07 B | 212.10 M | 1.16 B | 5.18 B | 481.64 M |
| FCF TTM | 2.96 B | 248.09 M | 782 M | 3.98 B | 420.61 M |

\*Industry Avg. 26 companies from Bloomberg, FY 2016, Dunkin, Yum! And McDonald are negative equity.  |

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|  | SBUX | Consumer Dis | S&P 500 |
| YTD | -1.35 | 9.73 | 11.90 |
| 2016 | -7.51 | 4.32 | 9.54 |
| Last 3 Years  | 43.89 | 30.76 | 24.61 |
| Last 5 Years  | 118.40 | 88.61 | 71.46 |

**CSR Characteristics**

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|  | SBUX | Industry  |
| Governance Disclosure Score | 60.71 | 50.45 |
| ESG Disclosure:  | 32.06 | 17.24 |
| Social Disclosure Score | 29.82 | 22.37 |
| Environmental Disclosure Score | 16.67 | 20.55 |

Data: Bloomberg data of FY 2016 (CSR) |