

# ***Analysis on the Fundamentals and Value Investment of Four Leading Beverage Enterprises***

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**Abstract:** The article mainly studies the four leading enterprises in the beverage industry which are concerned about who has the highest investment value that provides a reference for investors to invest. In the field of business, providing investors with accurate and reasonable evaluation of the investment value of the specific industry is the main research direction of business researchers. The data in this paper come from Nasdaq official website, and refer to the forecast analysis data on estimize official website and the annual financial statement data of related enterprises. The article analyzes the fundamentals and valuation of enterprises, and uses comparative analysis method to compare and analyze the growth, profitability and stability. Based on analysis, the author believes that MNST is the best in terms of growth, profitability and stability, and as a market challenger, it has the characteristics of a growth stock. MNST has a good development prospect and is suitable for investment. MNST has some advantages and characteristics of rising stars, which can provide successful experience for some market challenger enterprises in the market and promote the healthy development of the beverage industry market.

**Keywords:** Value investment, Beverage industry, Listed company, Profitability

## **1. Introduction**

### **1.1. Research Background and Significance**

The food and beverage industry are extremely close to People's Daily life, so it is not too affected by the economic cycle, showing strong investment value [1]. And with the continuous development of the global economy and the improvement of consumers' living standards, the food and beverage industry has attracted much attention in recent years. In 2020, the amount of investment in the global soft drink industry declined briefly due to the impact of the epidemic, but with the recovery of the global economy, especially China's economy, the beverage industry has shown a good growth trend in recent years. The beverage industry is a rigid demand of consumers, with good fundamentals and strong profitability. It is a long-term growth direction with strong certainty and has significant investment value [2]. In this paper, the author selects four high-profile soft drink companies and conducts fundamental and valuation analyses. As the fundamentals of the beverage industry continue to improve and people's demand for its products is increasing, the research value of this paper mainly lies in providing a worthwhile option for investors who are short-term hedge or long-term investment.

The significance of stock investment value analysis is to provide investors with more professional investment information, provide reference for the grasp of investment timing, so as to guide investors to make rational investment. In the longer term, the market can be regulated and the behavior of the company can be changed to make the company develop towards standardization. At the same time, it also played a role in optimizing the allocation of funds [3].

## 1.2. Literature review

The literature referred to in this paper mainly lies in the following aspects: value investment theory, investment value analysis of food and beverage industry, operation and competition status analysis of leading companies in beverage industry, and profitability analysis.

**Value Investment theory:** The research literature on value investment theory is very extensive, and this paper selects part of the literature based on the measurement ratio used in the paper. Zhang Jianwen introduced three main aspects of value investment in his article on value investment [4]. Benjamin Graham and David Doddin introduced the investment value of growth stocks in the paper *Security Analysis* [5]. Xu Zhangyong introduced the importance and necessity of value investment in the article of Chengde Lulu *Investment value analysis* [3]. Jing Xin, Wang Huacheng, and Liu Junyan wrote in his paper that the P/E valuation model has great value for stock value and can be used to make simple judgments on the market opportunities or risks of enterprises [6]. Fang Chengming wrote in the article *BYD Valuation Analysis Based on P/E ratio and Residual Income* that PEG model can complement P/E ratio valuation model to further judge the strength of opportunities and risks [7].

**Food and beverage industry investment value analysis:** Chen Zhimin introduced the importance of the food and beverage industry and its strong investment value in the article of investment value analysis of listed companies in the food and beverage industry [1]. Luo Jiawei in our country food and beverage industry investment analysis research article introduced the beverage industry investment value [2].

**Beverage industry leading companies operating in and competition analysis:** Li Huiqun introduced the old leading enterprise Pepsi Cola has been to occupy the market share strategy and its own competitive advantage [8]. Ren Liying and Chang Jing introduced the marketing strategy and competitive advantages of Starbucks, a rising star [9,10].

**profitability analysis:** Masulis in the effects of capital structure change on security prices: A study of exchange offers mentioned the close connection between debt, profitability, and enterprise value [11]. Tan Yuan introduced the value of long-term development research of profitability index enterprises in the article of profitability analysis of listed companies [12].

The author now focuses on the question of which of the four leading companies in the beverage industry has the higher investment price. Based on the literature on investment value analysis of the food and beverage industry, it can be seen that the whole beverage industry has good fundamentals and high investment value. Based on the analysis of the operation and competition status of leading companies in the beverage industry, investors can have a preliminary understanding of the current operation and competition status of the four enterprises, and provide direction for investment choices. Based on investment value theory, it provides a theoretical basis for measuring growth, profitability and stability ratio. Profitability is an important aspect of making investment choices, and it is also the direction that investors need to focus on. The previous literature mostly analyzes the whole industry and does not provide micro-analysis for some portfolios. As a beverage industry with high investment value, the author focuses on the micro perspective, aiming at the portfolio of four leading enterprises, carries out value investment analysis, and finally selects the company with the most promising investment prospect.

### **1.3. Research Contents**

The author first introduces the operating and competition status of the four companies, so that investors have a preliminary understanding. Then from the growth, profitability, stability to calculate the ratio, analysis of the ratio, comparative analysis, so as to complete value investment analysis. Finally, it makes investment suggestions for investors.

## **2. Enterprise Operation Situation**

The paper selects PepsiCo (PEP), Keurig Dr. Pepper (KDP), Monster Beverage Corporation (MNST) and Starbucks (SBUX) for analysis.

### **2.1. PepsiCO (PEP)**

PepsiCo's market capitalization has reached \$240.79billion. It is one of the world's top 500 food and beverage companies, operating in nearly 200 countries around the world, with more than 20 brands with annual sales of more than \$1 billion, such as Lay's potato chips, Pepsi Cola, Quaker cereal, Grass flavor and other products beloved by many consumers.

### **2.2. Keurig Dr. Pepper (KDP)**

Keurig Dr. Pepper's market capitalization has reached \$45.19billion. It is mainly positioned in the US market. It is a leading beverage company in North America that manufactures, markets, distributes and sells hot and cold beverages and single serve brewing systems. They have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers. They offer more than 125 owned, licensed, and partner brands, available nearly everywhere people shop and consume beverages.

### **2.3. Monster Beverage Corporation (MNST)**

Monster Beverage Corporation's market capitalization has reached \$55.77billion. Since the 1990s, Monster Beverage has grown at the quickest rate among consumer products companies listed on the US stock market. The market value of the company has expanded by about 1,000 times between 2002 and 2020. As a tiny beverage maker, Monster Beverage has effectively overtaken Red Bull in the first ten years to become the leading beverage firm in the US in terms of market share. After Coca-Cola acquired it in 2015, Coca-Cola finished replacing the assets. It has become a global beverage group by realizing the global layout and the strategic shift from a huge single product to a multi-SKU matrix operation.

### **2.4. Starbuck (SBUX)**

Starbucks's market capitalization has reached \$82.81billion. Starbucks is a large multinational coffee shop chain in the United States and the largest coffee shop chain in the world. Despite being primarily involved in retail and coffee production, Starbucks is recognized as a cultural brand because it places a strong emphasis on the coffee-drinking experience of its customers, and the scene being set while having coffee. The marketing approach used in the process of promoting products and brands is continuously updated, utilizing scene marketing that aligns with the attributes of contemporary customers through the field. Customers are given a sense of reality through the examination of landscape features and the incorporation of scenes in marketing, time, communication, a fully immersive experience, and in some cases, these factors produced amazing outcomes [4].

### 3. Competition

PepsiCo has adopted some challenging strategies and in recent years has surpassed Coca-Cola as the market leader in terms of revenue. The first is differentiated competition, focusing on young people, and finding part of the market neglected by Coca-Cola. The second is price war, to gain market share through price advantage. The third is to use fan marketing and star strategy, marketing to find the most effective way. Finally, product category diversification expansion [5]. PepsiCo is the only one of the four with a presence in both food and beverage, and both occupy a large market share. Its strength lies in the idea of focusing on the market of young people.

Keurig Dr. Pepper's competitive advantage is rooted in its diverse beverage portfolio, unique flavors, and long-established reputation. Taste and marketing innovations drive customer engagement and loyalty. The brand's adaptability has made it a resilient and competitive player in this industry.

Monster Drinks focuses on the energy drink market and has become the number one market share in the energy drink industry. The first is the trend toward healthier, energy drinks are a hit. Second, grasp the trend of personalized development and closely follow young consumer groups. Third, implement differentiation and innovation strategy on the product side. Finally, corporation deeply with Coca-Cola expands the international market with the help of distribution channels.

Starbucks is mainly in the coffee and tea business. Its innovative and stylish space and product design, mature and friendly relationships with suppliers, "partner culture" that values treating staff members well, and star level membership system—which creates an unbreakable bond with suppliers, staff, and customers from all angles and dimensions—are its competitive advantages. to increase brand loyalty and internal competitive advantage [6].

### 4. Investment value

The value investment method mainly evaluates three aspects: growth value, evaluates profitability value, and evaluates asset value, that is, the tangible aspects of the company today, which the author regards as the evaluation of stability [7].

#### 4.1. Growth

In his book Security Analysis in 1934, Benjamin Graham proposed that investment should be made when it is lower than the intrinsic value of stocks, proving the importance of stock growth for value investment [8].

According to the data on estimate's official website on April 25, the TTM EPS, NTM EPS and stock prices of the four firms can be known (see table 1). The remaining ratio can be calculated according to the formula (1)-(4).

Table 1: Stock data of four companies

Ticket symbol	PEP	KDP	MNST	SBUX
share price	\$176.68	\$33.85	\$53.40	\$73.11
TTM EPS	7.62	1.79	1.55	3.64
NTM EPS	8.40	1.91	1.81	3.76
EPS growth rate	10.2%	6.7%	16.8%	3.3%
Revenue growth rate	3.5%	3.8%	10.9%	3.1%
TTM P/E	23.19	18.91	34.45	20.09
NTM P/E	21.03	17.72	29.50	19.44
PEG	2.27	2.82	2.05	6.09

#### 4.1.1. P/E Ratio

The model assumes that the price in each stock market is a constant multiple of earnings per share, with higher earnings per share leading to higher value per share [9].

$$\text{P/E Ratio} = \frac{\text{Share Price}}{\text{Earnings Per Share}} \quad (1)$$

From formula 1, MNST is the highest, above 25. But its asset-liability ratio is very low, indicating that its solvency is very good, indicating that it is not overvalued. The KDP is the lowest. PEP and SBUX are close to 20. It indicates that MNST may be overvalued, and the market has high expectations for its future earnings, which may have a high investment return potential, or be risky.

#### 4.1.2. EPS Growth Rate

EPS growth ratio reflects the profit growth rate of each share of equity.

$$\text{EPS Growth Rate} = \frac{\text{NTM EPS} - \text{TTMEPS}}{\text{TTM EPS}} \quad (2)$$

From formula 2, the EPS growth rate are ranked from high to low as MNST, PEP, KDP, SBUX. The higher the EPS, the more profit each share can distribute. The higher the EPS growth rate, the greater the investment return potential. Thus, MNST has the greatest potential.

#### 4.1.3. Revenue Growth Rate

The growth rate of operating income is an important symbol to measure the operating status and market share of an enterprise and predict the trend of business development. Increasing operating income is the basis of enterprise survival and the condition of development. If the index is greater than 0, it means that the operating income of the enterprise has increased.

$$\text{Revenue Growth Rate} = \frac{\text{NTM Revenue} - \text{TTM Revenue}}{\text{TTM Revenue}} \quad (3)$$

From formula 3, the revenue growth rate is ranked from high to low as MNST, KDP, PEP, SBUX. The ratios of KDP, PEP and SBUX are similar, all close to 3. MNST is much higher than others, indicating that MNST revenue is in good condition in the future.

#### 4.1.4. PEG Ratio

In order to further judge the strength of investment opportunities and investment risks, PEG index needs to be calculated. PEG index can take into account the current earning ability and future growth of enterprises [10].

$$\text{PEG Ratio} = \frac{\text{P/ERatio}}{\text{EPS Growth Rate}} \quad (4)$$

From formula 1, they are all greater than 1, indicating that they are all overvalued by the market. PEP, KDP and MNST are close to two. SBUX is much higher than the other, indicating that it is more expensive per unit of growth rate compared to others. MNST has the lowest PEG, indicating that the growth rate and P/E fit is the highest.

To sum up, SBUX is not suitable for investment because of its high PEG. PEP, MNST and KDP need to analyze their profitability.

## 4.2. Profitability

Profitability is one of the core indicators to measure the development of enterprises, and the level of profitability is related to the long-term development of enterprises [11].

### 4.2.1. Assets-Liability Ratio

Through the relationship between corporate value and debt level, companies can obtain the correlation between the two and corporate profitability [12]. The asset-liability ratio is the ratio of total liabilities to total assets, reflecting how much of a company's assets are derived through liabilities. A higher ratio indicates a higher level of indebtedness of the firm. A high asset-liability ratio may mean that the firm relies too much on debt financing, and the firm has high operational risks and is not suitable for investment.

Table 2: Asset-liability ratios for PEP, KDP and MNST

Ticket symbol	PEP	KDP	MNST
Assets-Liability Ratio	82%	51%	15%

It indicates that MNST has strong solvency. But PEP, higher debt, greater risk. Thus, the author believes that the KDP should be rejected.

### 4.2.2. GP/A Ratio (Gross Profit to Assets ratio)

By calculating the ratio between A company's gross profit and total assets, GP/A reflects the company's ability to create profits by using its assets, providing an intuitive way to evaluate the company's operating conditions and resource utilization efficiency.

Table 3: GP/A ratios for PEP, KDP and MNST

Ticket symbol	PEP	KDP	MNST
GP/A	49.3%	15.5%	39.2%

The GP/A ratio are ranked from high to low as PEP, MNST, KDP. It indicates that PEP has the highest ability to convert gross margin into assets, followed by MNST, and KDP has the lowest. It indicates that PEP, MNST has better profitability in managing overall assets in the long term, while KDP has worse profitability.

### 4.2.3. Annual Gross Profit Margins and Quarterly Gross Profit Margins.

Gross profit margin is an important indicator to measure the profitability of enterprises. It is usually the highest gross margin that indicates the higher the profitability of the enterprise and the stronger the ability to control costs. By comparing the annual gross profit margin, it is possible to analyze whether the annual development of the enterprise is stable. By comparing the quarterly gross profit margin, it is possible to analyze whether the development of enterprises is affected by seasonal turnover.

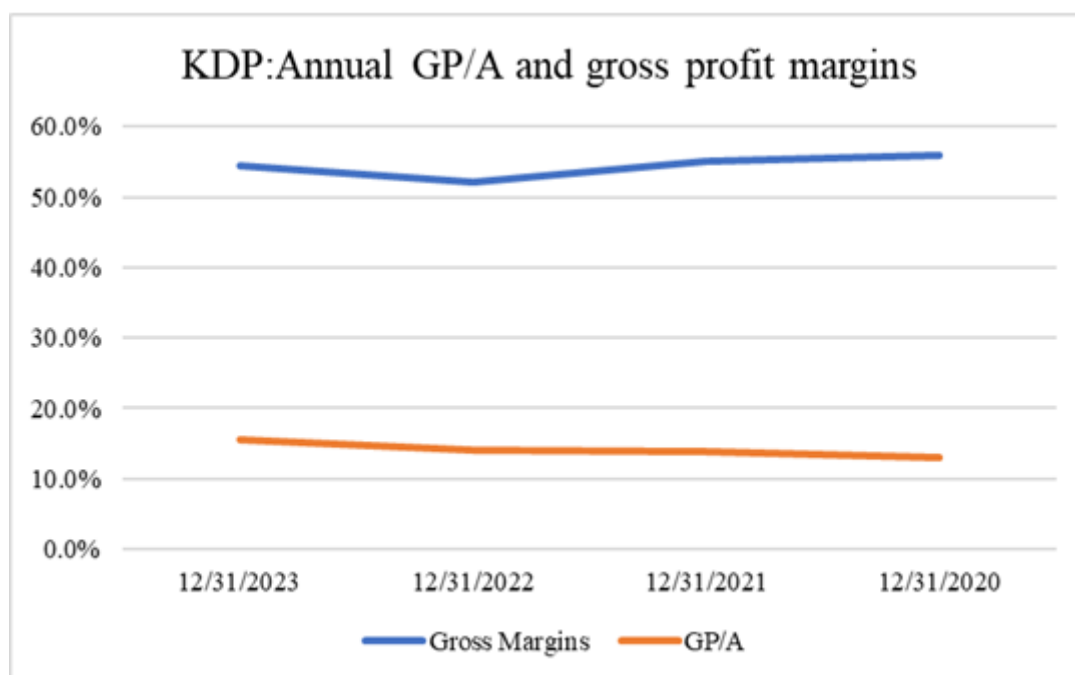


Figure 1: Annual GP/A and gross margin trend of KDP

From Figure 1, even if KDP's gross margin remains high, the GP/A ratio remains very low and does not exceed 20%. KDP is less able to manage overall assets in the long run

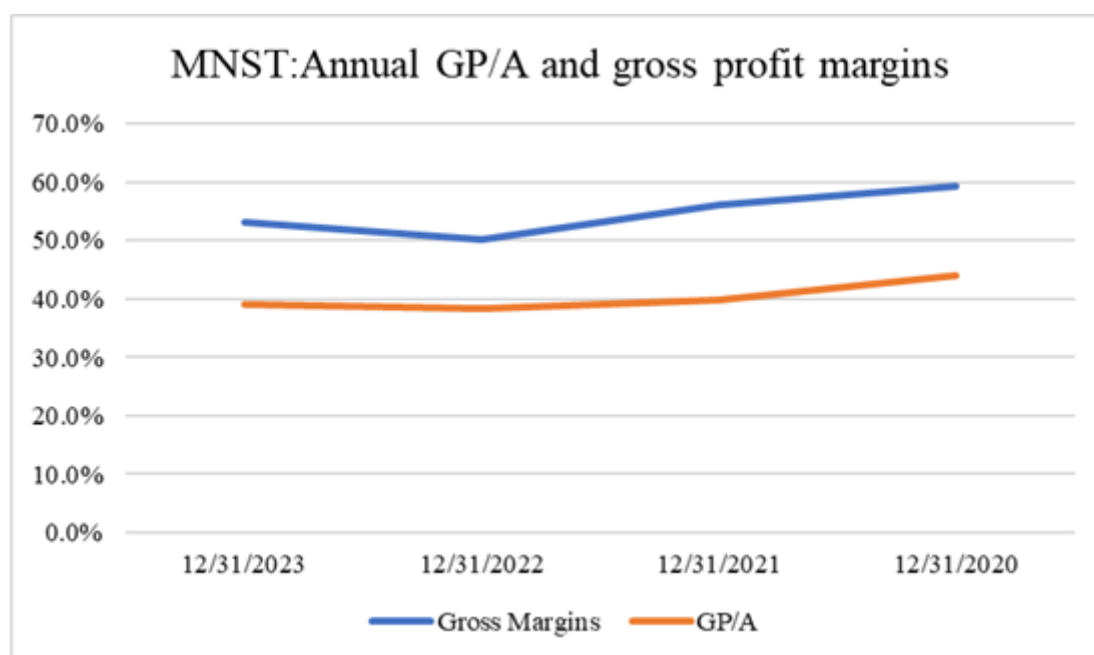


Figure 2: Annual GP/A and gross margin trend of MNST

Table 4: Annual net profit margins for KDP and MNST

Annual net profit margins	12/31/2023	12/31/2022	12/31/2021	12/31/2020
KDP	14.7%	10.2%	16.9%	11.4%
MNST	22.8%	18.9%	24.9%	30.7%



From Figure 2 and table 4, MNST's GP/A ratio and gross margin are largely stable and remain high. From the GP/A line, compared with KDP, MNST assets have better profit conversion ability. From the gross margin line, the fluctuation is larger than KDP. There is a significant decline in 2022, but a rebound in 2023. Judging from the trend, it should be on the rise. In addition, gross margin alone does not judge profitability. From the net profit margins, MNST is relatively at a higher level.

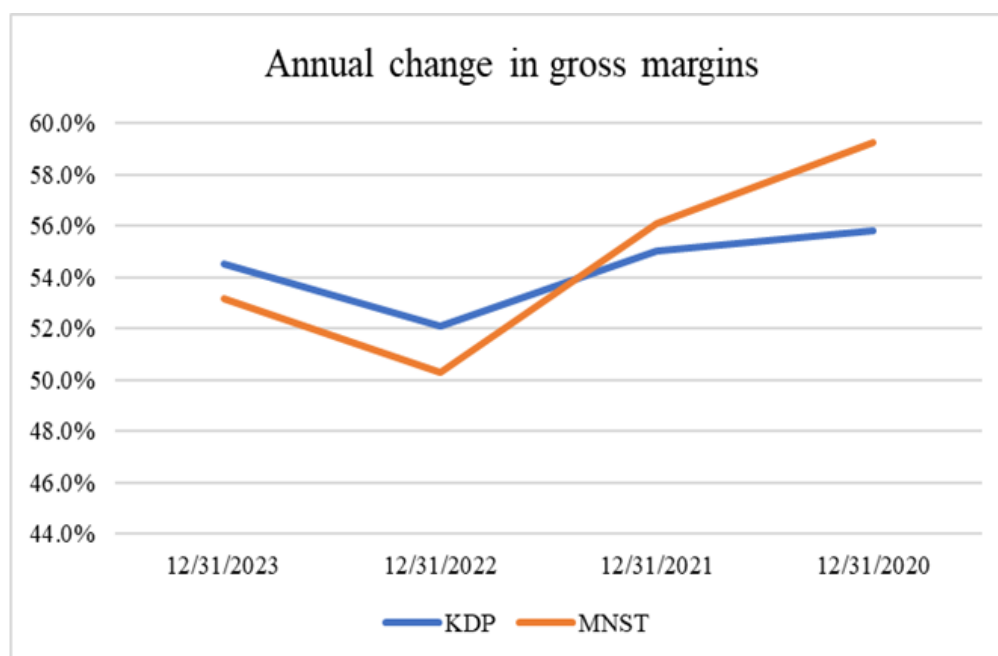


Figure 3: Comparison of annual gross margin trends between KDP and MNST

From Figure 3, their annual gross margins have both fluctuated, so there is no comparability. It shows a downward trend from 2020 and a significant decline in 2022, indicating that COVID-19 has a great impact on the beverage industry. After 2022, there is a trend of recovery.

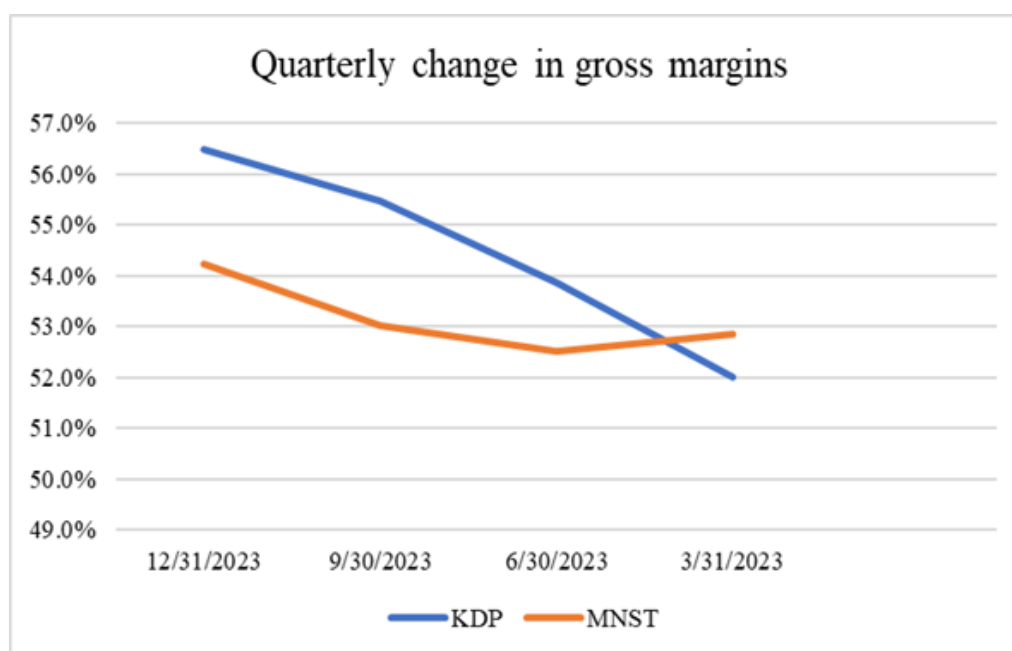


Figure 4: Comparison of quarterly gross margin trends between KDP and MNST



From Figure 4, the quarterly gross margin volatility of MNST is relatively less than that of KDP, and it indicates that MNST has less seasonal earnings variation than KDP.

To sum up, MNST has high profitability and low debt profitability, good profitability of long-term management of overall assets, and relatively small seasonal fluctuations, making it more stable and suitable.

#### 4.3. Stability

In the investment world, high investment means high risk, so investors usually make investment decisions carefully. If the enterprise only has high profits in a certain year, and then its net profit continues to decline, investors will not get high returns, and may even have losses, indicating that the investment choice is not considered. Or the company's gross and net profit margins have fluctuated greatly in recent years, which may not be a good investment. As a result, investors prefer companies with solid growth, which may provide them with stable returns. Thus, MNST has high and robust annual GP/A and gross margin, which has the best stability.

#### 5. Suggestion

PepsiCo has the highest asset-liability ratio, which is as high as 80% or more, indicating high risk. There are two reasons for Keurig Dr. Pepper, the first is the low GP/A ratio, indicating it has lower profitability in managing overall assets in the long term. The second is that the quarterly gross margin changes are relatively large, indicating that it is relatively unstable.

Starbucks is mainly because of its high PEG ratio, indicating that it is more expensive per unit of growth rate compared to other.

The author believes Monster Beverage Corporation is best. In terms of growth, first, it has high P/E, but its asset-liability ratio is very low, indicating that its solvency is very good, and it is not overvalued. Second, it has low PEG ratio, so PEG and P/E have the highest degree of agreement. In terms of profitability, it has high revenue growth rate, and quarterly gross margin is relatively less volatile. In terms of stability, high and robust annual GP/A and gross margin. So, MNST is more stable and suitable.

Monster's success is a story of how a new brand from a small and midsize company that was a late entrant can break out into the mainstream, and its success has lessons for the entire beverage industry: (1) Entering market segments. (2) "Precision + differentiation" positioning. (3) "Soul marketing + brand building" to acquire loyal customers. (4) Continuous innovation. Increase investment in brand building while maintaining emotional communication with core customers.

#### 6. Conclusion

In this article, the author started from the beverage industry, selected four leading enterprises with distinctive characteristics, and analyzed their fundamentals and valuation. Based on the analysis, the author believes that MNST, as a market challenger, has the characteristics of growth stocks, and is the best in terms of growth, profitability and stability. MNST has a good development prospect and is suitable for investment. From a long-term perspective, through value investment analysis, it can be found that MNST has some advantages and characteristics of rising stars, which can provide successful experience for some market challenger enterprises in the market and promote the healthy development of the beverage industry market. At the same time, it can also be found from the data that MNST's current operation management and capital allocation are still unreasonable, which may bring risks to the enterprise. It is hoped that the enterprise can avoid risks and develop in a standardized way.

The article still has some limitations. First, the author failed to make a specific analysis of the risk factors of MNST. The best companies to invest in also remain risky. Investors need to be aware of their possible risk factors and weigh the pros and cons before making decisions. Therefore, in the following research, the author will analyze the risk factors existing in the four companies, so as to provide investors with reference value and make early warning for the companies. Second, the author only selected four leading companies, which may not represent the entire beverage industry. Next, the author hopes to make a targeted comparison in the subdivision field. The author also hope that can do a research specifically for the Chinese beverage industry market, analyze the particularity of China's beverage industry, and attract more investors to invest in Chinese beverage enterprises and help their development.

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