Comparative Analysis of Three Consumer Staples Companies

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Abstract. With the financial risk like Fed rate hike, the fluctuation of gold price and so on, systematic risk of the global economy keeps increasing. Assets which are stable while still profitable will become popular with high possibility, and consumer staples is a sector with these properties. This paper analyses three stocks of consumer staples: Monster Beverage Corporation (MNST), The Coca-Cola Company (KO), and Nestlé S.A. (NSRGY). The analysis focuses on their risk, profitability, and market ratios to finally conclude the strategies that different types of investments should choose when investing on these stocks. Analysis on risk reveals that three companies have beta less than 1 and larger companies have lower beta. Analysis on profitability reveals that three companies are profitable and smaller companies are more profitable. Based on market ratios, these companies are not in low price. Finally, this paper analyses the asset selection for investors and the results show that these three companies are of good quality for income, ratio, and index investors, but not for value, PEG, and DCF investors, and momentum investors may invest on Monster Beverage Corporation, but not on other two companies. This article may help decide what sections to invest and how to choose between companies in the same section.

Keywords: Consumer staples; risk; profitability; market ratios.

1. Introduction

Once a person can accumulate wealth, and the accumulated wealth exceed a certain amount where the value of investment exceeds the opportunity cost, it is wiser for the person to invest than not [1-3]. Stock market is a beneficial but risky market. Individual investors, usually with poorer financial knowledge and over confidence, may not distinguish between investment and speculation, which will lead to more risk [4-5]. As a result of this, ways of analyzing companies are necessary.

Financial ratios are the chosen calculated results by enterprise's financial statements so that they can reveal the financial condition of a company [6]. By analyzing financial ratios, evaluating companies becomes easier for investors. To simplify, this article divides financial ratios into three individual parts, risk, profitability, and market ratios.

This article chooses consumer staples as the target sector because they are fundamental need for human, leading to their less dependent on the world economy. Three typical companies, Monster Beverage Corporation, The Coca-Cola Company, and The Nestle Company are chosen, and a comprehensive analysis is made so as to benefit financial investors.

2. Profile of the Selected Companies

Monster Beverage Corporation (MNST) develops and markets energy drinks since 1990. Its products are mainly soft beverage, containing sugar, vitamin, adrenaline, caffeine, and juice. It locates in Corona, California. Until 2022, it had over 4000 team members in 68 countries and territories. In 2022, it sold 613.4 million cases in 153 countries and territories and made $5.541 billion total net sales.

The Coca-Cola Company (KO) has been making cola since 1886 and becomes the largest beverage company. Its core secret recipe has been protected for over a hundred years. It locates in Atlanta, Georgia. Until 2022, it had over 7 million employees, about 950 production facilities and about 200 bottling partners. In 2022, it performs $43 billion revenues in over 200 countries and territories. It ranked 344 in 2023 Fortune Global 500.

The Nestle Company (NSRGY) has been developing healthy and nutritional food and drinks since 1867. Its huge influence includes many aspects in food industry. It locates in Switzerland. Until 2023, it had about 270 thousand employees. In 2023, it performs 93 billion (in CHF) sales in 188 countries and territories. It ranked 106 in 2023 Fortune Global 500.

3. Financial Indicators of the Companies

3.1. Risk

Risk is an analysis of the distribution of the profit. From the aspect of companies, risk can be decomposed into different parts. The article focuses on risk of size, risk of the dependence of the market and risk of cash flow, which can be respectively characterized by Market Capitalization, Beta and Total Debt Ratio. Market Capitalization is simply the price of the stock times its number of shares, representing the scale of the investment on the stock. Larger Market Capitalization indicates lower risk. Beta is a measure of systematic risk of a stock, calculated by CAPM Model. Smaller Beta indicates less dependence on the market, meaning lower risk. Total Debt Ratio is the total debt divided by total assets and the smaller one is better. Detailed results are shown in the following Table 1.

Table 1. Risk

Risk	Market Cap	Beta	Total Debt Ratio
MNST	$62.19 billion	0.72	0.01
KO	$256.33 billion	0.59	0.43
NSRGY	$278.29 billion	0.30	0.40

Since the market capitalization of the three companies are all bigger than $50 billion, they are all big company, so the risk of this aspect can be omitted.

The beta is 0.72 for Monster Beverage Corporation, 0.59 for The Coca-Cola Company and 0.30 for Nestlé S.A., and they are all below 1, because consumer staples have a relatively stable source of consumers. Nestlé S.A. has the smallest Beta since its products are widely chosen as daily needs. Compared to The Coca-Cola Company, Monster Beverage Corporation focus on energy drinks, leading to its less stability to the economic fluctuation.

It is obvious that Monster Beverage Corporation adopts a different strategy to manage its cash flow as it only takes very few debts. Debt ratios of other two companies are close and reasonable.

3.2. Profitability

Profitability is an analysis of the mean value of the profit. From the aspect of companies, profitability can be evaluated by many ways. The article focuses on the efficiency of the use of the assets, the potential of making profit and the past profitability data, which can be respectively characterized by Asset Turnover, Profit Margin and ROA, ROE. Asset Turnover measures the speed how the assets become revenue. Larger Asset Turnover indicates higher speed. Profit Margin is income divided by revenue. ROA and ROE are the profit. Detailed results are shown in the following Table 2.

Table 2. Profitability

Profitability	Asset Turnover	Profit Margin	ROA	ROE
MNST	0.83	22.62%	17.50%	20.80%
KO	0.47	23.42%	11.00%	41.40%
NSRGY	0.70	10.12%	7.10%	22.24%

Monster Beverage Corporation has the highest Asset Turnover. Considering its lowest debt ratio, this company has a very efficient business model. The other two companies have close Asset Turnover ratio. Monster Beverage Corporation and The Coca-Cola Company have close profit margin and they are both much higher than Nestlé S.A. because beverage has larger gross profit margin than normal food. Although ROA of Monster Beverage Corporation is the highest, its ROE is the lowest. It still results from low debt ratio.

3.3. Market ratio

P/E ratio is the abbreviation for price-earnings ratio. Its definition is its market price divided by earnings. High P/E ratio means the company is overvalued and low P/E ratio means the company is undervalued. P/B ratio is the abbreviation for price-to-book ratio. Its definition is its market price divided by balance sheet price. It measures company's value similarly as P/E ratio but in a different aspect. Dividend yield's definition is dividend divided by market price. High or low dividend does not necessarily mean good or bad as it is still a debated problem, while higher dividend yield is still attractive. PEG ratio is the abbreviation for price per earnings to growth ratio. Its definition is price per earnings divided by annual earnings per share growth. If PEG ratio is larger than 1, the price of the company is considered lower than the growth value. Theoretically only the companies with PEG larger than 1 are qualified for being invested. DCF is the abbreviation for discounted cash flow. It is an analysis by discounting all the future cash flows of a company to the present and add them up. Comparing DCF price to the present price reveals the necessity of investing a company. The definition of Momentum is the 200-days-moving-average price divided by the present price. If Momentum ratio of a company is larger than 1, it is highly possible that its price will continue to go up. Detailed results are shown in the following Table 3.

Table 3. Market Ratios

Market Ratios	P/E	P/B	Dividend yield	PEG	Price	DCF	Mom
MNST	38.18	7.48	0%	1.71	58.31	38.56	1.043
KO	24.1	9.9	3.26%	2.82	53.86	33.04	0.950
NSRGY	21.77	6.7	3.26%	2.39	105.32	87.44	0.913

All the companies are growth stocks because of the high P/E and P/B ratio. The Dividend yields of these companies are smaller than 3%. These three companies' PEG are larger than 1. None of the companies have DCF price larger than the present price. Momentum of Monster Beverage Corporation is larger than 1, and others are smaller than 1.

3.4. Insider Buying and Stock Buyback

Insider buying means those who work in a company or who has close relationships with such people buy the stock of the company. If a company has insider buyers, buying its stock is of very high possibility to be profitable because they own nonpublic information about the company.

Stock buyback means the company buy its stock back. Stock buyback shows confidence of a company to itself and works the same as distributing dividend. Detailed results are shown in the following Table 4.

Table 4. Insider Buying and Stock Buyback

	Insider buying	Stock buyback
MNST	YES	YES
KO	NO	YES
NSRGY	NO	YES

Only Monster Beverage Corporation has insider buyers and all the companies have stock buyback.

4. Asset Selection

There are many kinds of investors in the world market, and their behaviors can be measured as they favor in different aspects of companies. This article specially focuses on ratios of companies, so investors are assumed to have the idiosyncrasy to choose companies according to their ratios. As a matter of this, this article distinguishes investors by nine types. They are value, income, PEG, Index, Ratio, DCF, Momentum, insider buying, and stock buyback. Value investors invest on those underestimated companies and wait until their prices return to normal. Income investors look for higher annual return of a company. PEG investors consider PEG ratio as a fair standard for investment. Index investors follow the index and buy a bunch of companies. Ratio investors consider all the ratios. DCF investors regard cash flows as the only value. Momentum investors believe they can prospect the price according to the trend. Insider buying investors trust the choices of insider buyers. Stock buyback investors believe that companies themselves know their values most. Detailed results are shown in the following Table 5.

Table 5. Investing Selection

Types of investors	MNST	KO	NSRGY
Value	NO	NO	NO
Income	YES	YES	YES
PEG	NO	NO	NO
Index	YES	YES	YES
Ratio	YES	YES	YES
DCF	NO	NO	NO
Momentum	YES	NO	NO
Insider buying	YES	NO	NO
Stock buyback	YES	YES	YES

Three consumer staples companies tend to have higher price than their value. However, they have good income. This means consumer staples have considerable profitability, offsetting the high price. They are overpriced but their ratio analyses are good. Monster Beverage Corporation is among S&P 500, the Coca-Cola Company is among Dow Jones Industrial Average and the Nestle Company is among Global Access to Nutrition Index. Consumer staples do not reach the standard of DCF. Only Monster Beverage Corporation is at the moment of buying and has insider buyers. These companies are confident enough to buy back their stocks.

5. Conclusion

During risky times, stable and profitable companies are precious. By analyzing risk, profitability, and market ratios of three companies of consumer staples, Monster Beverage Corporation, The Coca-Cola Company, and Nestlé S.A., it is obvious that consumer staples have such properties. Three companies have low beta and low debt ratio, suggesting that they have low risk. Three companies have high ROA, ROE, and profit margin, suggesting that they have good profitability. Three companies are overpriced according to the analyze of market ratios. Comparing the data, smaller companies are more profitable, and bigger companies have less systematic risk. Consumer staples are ideal investment for those investors who favor income, ratio, and index, but not ideal for those who favor value, PEG, and DCF. Other investors who favor momentum, inside buying need to analyze single companies to decide whether they are of high quality or not. This article may give advice for those who want to compare investment on different sections.

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