

Stocks Analysis in Consumer Staples Sector: Case of Johnson & Johnson, Procter & Gamble and Coca-Cola

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Abstract. The consumer staples sector has been a steady performer in the stock market and generally does not fluctuate with changes in the overall environment. Consumer staples mainly include household commodities, food, beverages and other components. Products that cannot be eliminated from the budget even under difficult economic conditions. Companies in this category are called non-cyclical companies and the economy tends to grow. Representative companies are Johnson & Johnson, Procter & Gamble and Coca-Cola. The three companies sell and produce different consumer goods. Therefore, can be more comprehensive to understand the situation of the main consumer sectors. By analyzing and comparing the economic conditions of these three representative companies, it is found that the consumer goods sector plays an important role. The strength of consumer staples stocks is stability, dividend growth and low volatility, while the weakness is slow growth. Objectively speaking, if the pursuit of stability, the main consumer sector investment is the best choice.

Keywords: Consumer Staples Sector; Stocks analysis; Coca-Cola.

1. Introduction

Investing in stocks has always been a topic of high frequency. How to get a stable return is the focus of attention. How to find the right stock in many industries is always in the study of the problem. This requires an analysis of the risk of the stock and the investment value of the company itself. The consumer staples sector is one of 11 sectors in the stock market, sometimes referred to as the consumer defense sector. This category includes food, beverages, household goods, hygiene products as well as alcohol and tobacco. Such products are essential in people's lives and are usually in short supply. Therefore, even if the financial situation is not good, will not cut the cost of such products. Consumption of necessities is also said to be aperiodic. This means that its demand will not decrease almost every quarter or even every year, regardless of good economic conditions or poor performance. The benefits of the consumer staples sector include stability, dividend growth and low volatility, while the downside is slow growth. Investing in consumer necessities is a relatively safe investment. The consumer staples sector also often attracts investors with the generous dividend yields of its components, which tend to be higher than those of other sectors. A consumer staples stock can not only continue to pay dividends during a recession, but will typically continue to increase them because of its slow-and-steady growth character. The consumer staples sector has outperformed almost all sectors. Over the five years through September 2022, the consumer staples sector returned 8.20% annually, according to S&P Dow Jones Indices [1]. Although there are no substitutes for everyday consumer goods, competition among different companies is fierce. Because of the different marketing methods between different companies, consumers can choose a lot of products when they buy. It is the price that determines whether a consumer will buy a product. Therefore, the competition between suppliers needs to determine the price of products through various considerations. Manufacturers need to constantly innovate new technologies and improve processes to reduce production costs, so as to maximize profits.

Johnson & Johnson, Procter & Gamble, and Coca-Cola are among the more joyous of the consumer-staples sector, and their stock prices are generous. Johnson & Johnson is a big company. They are mainly engaged in the research and manufacturing of medical related products such as health

care products. The company focuses on consumer health, making drugs and vaccines, and selling medical devices. These three aspects are the main directions of their development.

Its main focus is on products related to human health and well-being. Mainly focus on health and beauty products, with certain research and contributions in the medical field. P&G focuses on delivering branded consumer products to consumers around the world. The company operates in five segments: Beauty, Hair, Wellness, Fabrics and Home Care. The company has a wide range of consumption platforms and channels, and sells its products to many countries and regions through multiple shopping malls, retail stores, intermediaries and professional channels. Coca Cola Company is a world famous beverage company. The company mainly produces and sells non-alcoholic beverages. Their business scope is global.

2. Stocks analysis in consumer staples sector

2.1 Risk analysis

By looking at their market capitalization, we can see how risky they are. Therefore, it can guarantee its stable income. The Market cap of Johnson & Johnson is \$459.23B. This can be seen that it has the advantage of large - cap stocks. This will attract more investors because of their stability and the fact that they tend to offer consistent dividends. That makes them a better bet for conservative investors. Beta represents the slope of the line regressed through the data points. Beta shows the relative risk of Johnson Johnson stock relative to its benchmark[2]. As market returns increase, Johnson Johnson's returns are expected to be below the market. However, you can also expect to lose less from owning J&J during a bear market. Johnson & Johnson's performance is very stable, but it is still necessary to conduct research from Johnson & Johnson's technical indicators in order to ensure that the information in the market is accurate and reliable. The historical volatility can predict that the future development direction of Johnson & Johnson is still in a good trend. It is still in the midst of the COVID-19 pandemic, and the global economy is not developing as well as before, but Johnson & Johnson also has industries such as health care, so it is less volatile, as shows in Table 1.

P&G's risk is mainly related to specific events through market fluctuations. P&G's beta is the smallest of the three companies at 0.39. So it can see that the risk is minimal. In the future, the development trend is relatively stable. If you need a stable stock as an investment, it is actually the best choice.

Coca-Cola is very stable. In terms of the stock price, it is now possible to buy more Coca-Cola shares at a lower price. The 0.53 beta of Coca-Cola does not have a significant impact on the risk of investment, but it is expected to maintain a stable trend in the future.[3]. Coca-Cola currently seems to be stable in terms of sales and sales, and with brand effect, it will attract a fixed part of the population. Meanwhile, Coca-Cola has shown very low volatility. Even though Coca-Cola's losses during the downturn are limited, its gains are not entirely unlimited. Because the price of Coca-Cola stock can not fall below zero, so the purchase of a low price in the down period will be a certain profit.

Table 1. Johnson & Johnson, Procter & Gamble and Coca-Cola risk comparison

	Johnson & Johnson	Procter & Gamble	Coca-Cola
Market cap	\$459.23B	\$333.28B	\$277.51B
Enterprise Value	\$431.28B	\$357.16B	N/A
Beta	0.63	0.39	0.53
Current ratio	1.42	0.68	1.13
Quick ratio	1.14	0.47	0.78
Total debt ratio	44.37%	67.22%	186.12%

2.2 Profitability analysis

The goal in any industry is to maximize profitability. Profit is the main goal for a company. Therefore, any decision made by the company is for the benefit of the company. This needs to rely on various tools to analyze and determine the methods and approaches to profit.

Johnson & Johnson is currently considered the No. 1 stock in the operating capital category among its peers. Although its operating capital is shrinking year by year, it is still higher than its peers. The size of the market based on the revenue of drug makers - the general industry is currently estimated at about \$1.31 trillion. Johnson & Johnson, which has about \$95.59 billion in revenue, claims to own about 7 percent of drugmakers, the general industry [4]. Johnson & Johnson's price-to-sales ratio is increasing compared to previous years. The price-to-sales ratio was reported to be 4.80 last year. The current return on sales is expected to increase to 0.26, while sales per share are expected to decrease to 33.70 [5]. Johnson & Johnson's interest rates deteriorated between 2019 and 2020, but began to improve after 2021 and surpassed 2019 levels. As a result, J&J's profits are healthy as the economy improves. It will bring in good revenue [6].

P&G reported net sales of \$80.2 billion in 2022, up 5% from a year earlier; Net income was \$14.742 billion, up 3 percent from a year earlier. In the fourth quarter, P&G reported net sales of \$19.5 billion, up 3 percent from a year earlier, and net income of \$3.058 billion, up 5 percent from a year earlier. In 2022, P&G's revenue and net profit both reached the peak in nearly 10 years, and its 2022 revenue exceeded 500 billion yuan for the first time, a record high, as shows in Table 2.

Table 2. P&g profits in the last three years

Year	Net sales	Year-on-year growth
2022	801.87	5%
2021	761.18	7%
2020	709.5	5%

The value of the ratio of price to sales of Coca-Cola is estimated to decrease to 6.36, and the return on sales is also on a downward trend. Coca-Cola's net income is relatively stable compared to last year, but other revenues are expected to decline. Coca-Cola's biggest problem now is that it has a single business line, and it also has the same type of companies with fierce competition such as Pepsi Cola. This kind of product is more about the value of the brand. To attract consumers through the brand. However, if Coca-Cola expands its product line and innovates in the future, it will get more attention from investors. Coca-Cola's success comes mainly from its high profits. Therefore, investors prefer to invest because Coca-Cola's profitability is very high. If Coke can't maintain long-term profit growth, it will be a fatal wound.

2.3 Market analysis

Johnson & Johnson had a market capitalization of \$434.02 billion as of September 2022. According to our data, this makes Johnson & Johnson the 9th largest company in the world by market capitalization [7]. Johnson & Johnson is an American multinational corporation. Johnson & Johnson could account for a third of the global medical market. This shows the influence Johnson & Johnson has on the industry. It attracts people's attention from different angles such as health care products and medical drugs. Johnson & Johnson's products are mainly distributed in consumer products, drugs and medical devices. The product range is extremely wide and diverse. Johnson & Johnson has a very wide distribution and you can see their products almost all over the world.

P&G's main product direction is detergent and some household products. P&g has three main product lines: home and personal care, food consumer and health products. These are everyday things. The way P&G occupies the market is to develop itself by constantly developing new brands. It uses consumer demand and market research to keep companies growing profitably. Internally they are constantly developing new products to attract consumers, externally they are constantly marketing and advertising. P&g has always been developing and researching products under its own brand, and constantly optimizing the existing way of manufacturing products, so that it has always been in a

leading position in the industry. There are big growth opportunities. Through continuous innovation to reduce the manufacturing cost of products. This also gives P&G the opportunity to market its products in other international regions. The biggest threat to P&G's market is that its sales depend on consumer spending. Consumers spend less in a recession, so they must keep prices competitive in order to maintain profits[8].

Coca-Cola is a major brand in the world, and its products are sold in more than 200 regions around the world. So the Coca-Cola brand is known by most people. Coca-Cola occupies a high market share and an unshakeable position in the beverage market. So far, there are almost 3500 kinds of Coca-Cola products[9]. Coca-Cola has developed a variety of sparkling drinks with different flavors. It studies drinks that are suitable for people in different regions. At this point, it has surpassed most beverage brands. Coca-Cola hardly has to market its brand as aggressively as other brands. Because, its existence has been deeply rooted in people's hearts. Even if you don't do a lot of advertising, there will be a fixed number of people to buy. Coke's main competitive advantage over its rivals is scale.

3. Discussion

The three companies have very large market capitalization scales, with an average of more than 300 billion US dollars, indicating that they have strong economic strength and financing capabilities, and have the ability to resist financial turmoil. Among them, Johnson & Johnson has high liquidity, and its current ratio and quick ratio are both higher than 1. Procter & Gamble's current ratio and quick ratio are the weakest among the three companies, only 0.68 and 0.47. But the three consumer goods company has a broad business market and scope, and its cash flow and income capabilities are not bad. The beta indices of the three companies are 0.63, 0.39 and 0.53 respectively, and there is no risk of large fluctuations. As of today, financial tools show that the three companies have maintained excellent profit indexes and revenues even in the context of a global economic recession due to the impact of the epidemic.

The average profit of the three companies is above 20%, of which Coca-Cola has an average of 28.75%, and ROA reaches 10.49%, ROE is 23.16%. From the data point of view, Coca-Cola The company has the highest profit. Johnson & Johnson and Procter & Gamble also have ROA indexes of 8.9% and 9%.

The data shows that the three companies also have high PE, PB, and PEG indexes. The Coca-Cola Company has the highest PE and PB indexes, respectively. At 29 and 12.06, the average PEG index of the three companies is also higher than 4, which means that they can all bring higher returns to investors and are worthy options for investors to consider.

Table 3. Stock analysis of Johnson & Johnson, Procter & Gamble and Coca-Cola

	JNJ	PG	KO
Profit margin	19.2%	18.38%	28.75%
ROA	8.90%	9%	10.49%
ROE	25.17%	31.64%	23.16%
PE	25.4	25.88	29
P/B	6.14	7.96	12.06
PEG	4.04	4.48	3.75

4. Conclusions

Johnson & Johnson, Procter & Gamble and Coca-Cola, we can see that the consumer products industry is a steady growth industry. No matter what extreme economic conditions, whether risk, profit or market, consumer goods must maintain a stable trend. Today's largest consumer-staples companies have been in business for at least a decade, and some have been in business for more than a century. This can be said to have reached the stage of inheritance. Investors can achieve some value by investing in the staples sector because long-term consumer staples are often in short supply[10].

The advantage of investing in consumer staples is that they have a stable customer base and predictable growth rates. At the same time, the cost end of the consumer staples sector could be better controlled. This is particularly important when future prices are uncertain. Last but not least, the consumer staples sector is currently valued in a position of strength among related sectors, and there is plenty of room to repair the valuations of related companies, driven by earnings. Dividend income is strong. Consumer staples stocks tend to pay generous dividends that continue to pay out over the long term. In a recession, consumer staples are the best bet for investors. If investors are looking for stocks with stable dividends and low volatility, consumer staples are a good choice.

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