



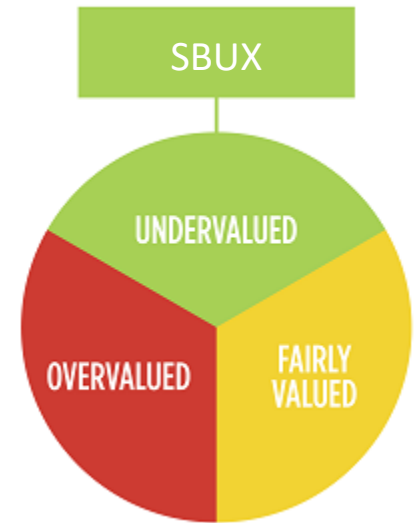
DSR STOCK CARD

08/23/2017

STARBUCKS (SBUX)

Business Model

Starbucks is one of the recent success stories in the consumer space. Founded in 1971 by the opening of the first coffee shop at the iconic Seattle Pike Market, it now operates 22,519 stores in 75 countries. Starbucks is known for its stellar customer experience and its variety of beverages. It built a reputation of listening to its customers and using technology (Facebook, Twitter, mobile payment) to continuously improve its in-store experience.



What Makes It a Great Company

- SBUX shows a 6 consecutive years dividend growth history with a very small yield. However, management seems to make a strong commitment in raising its payouts.
- With low payout and cash payout ratios, SBUX should keep raising its dividend and pushing its growth strategies.
- SBUX applies a modern way to deal with its customers through social network and its mobile platform.

Investment Thesis

While latest earnings cooled down many investors, one must look at the forest behind the tree. Teavana acquisition looks like a marginal mistake. Excluding assets impairments, margin expanded 100 points and EPS were up by 12%. Moving forward, SBUX continues its growth operation in China where sales were up by 7%, driven by 5% increase in average order price (a sign its menu improvements work well). Another good news was the acquisition of the remaining 50% of ownership of the Mainland China Market.

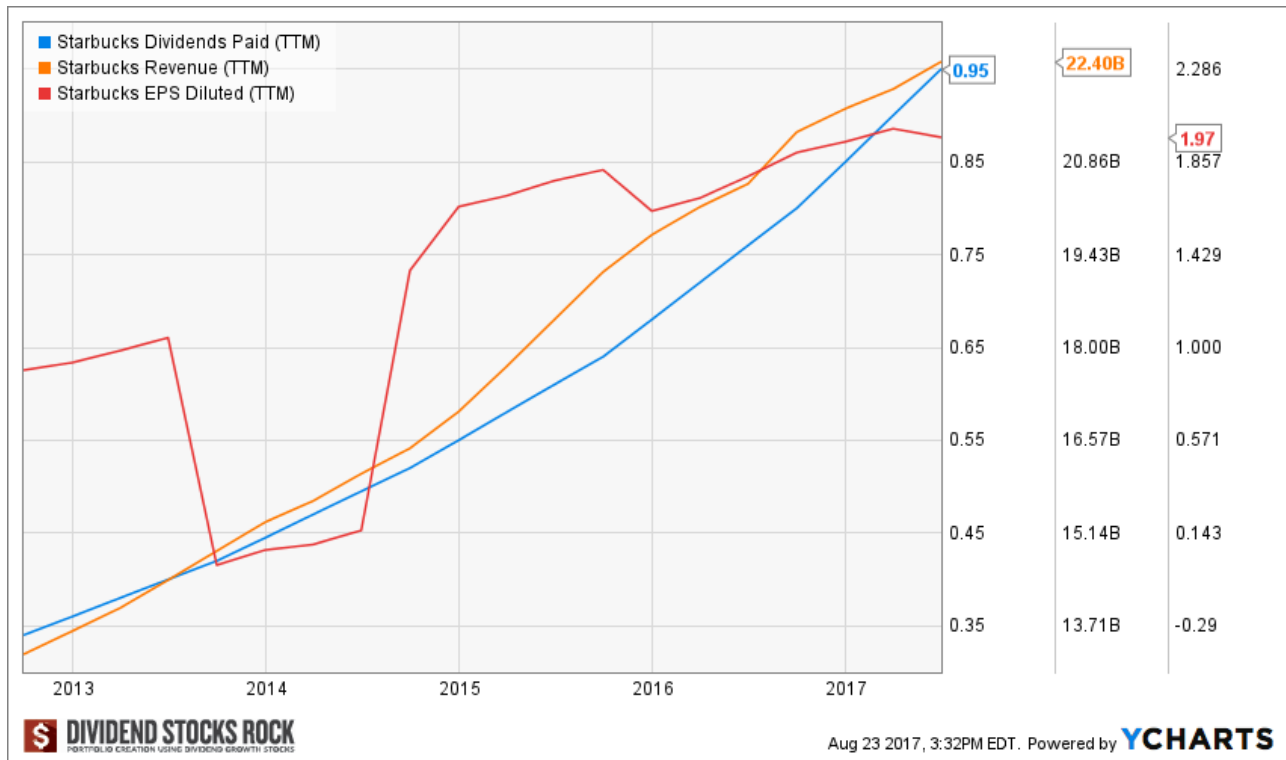
VALUATION

Intrinsic Value	Discount Rate (Horizontal)		
	9.00%	10.00%	11.00%
Margin of Safety			
20% Premium	\$154.62	\$76.80	\$50.88
10% Premium	\$141.73	\$70.40	\$46.64
Intrinsic Value	\$128.85	\$64.00	\$42.40
10% Discount	\$115.96	\$57.60	\$38.16
20% Discount	\$103.08	\$51.20	\$33.92



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CO. NAME (TICKER): STARBUCKS (SBUX)

TYPE OF HOLDING: GROWTH

SECTOR: CONSUMER CYCLICAL

CURRENT DIVIDEND YIELD: 1.85%

5 YEAR REVENUE GROWTH: 12.75%

5 YEAR EPS GROWTH: 18.59%

5 YEAR DIVIDEND GROWTH: 25.21%

PAYOUT RATIO: 47.74%

Potential Risks

SBUX growth potential in the U.S. is nearly nonexistent. There is a limit to the amount of coffee that can be purchased by an American! Therefore, if the company faces headwinds in China or India, its growth potential will be highly reduced. The stock price is still at a PE of 28 (forward PE at 26.70); a loss of interest from the market could also hurt the valuation temporarily

Dividend Growth Perspective

Starbucks increased its dividend payment for the past 6 years. Over the past 5 years, SBUX raised its dividend payment from \$0.085 to \$0.25 quarterly. This is a 24.08% annualized growth rate. With a payout ratio of 44%, management has lots of room to fuel both its growth strategy in China and its dividend payments.