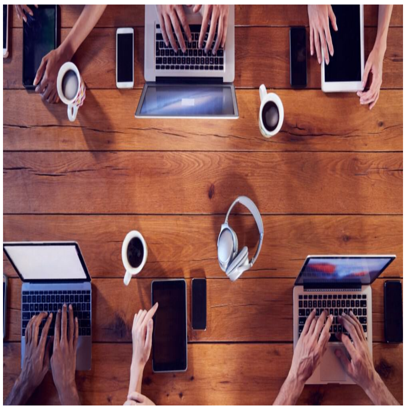

Is Starbucks a Buy at Today's Price?

Description

Starbucks (NASDAQ:SBUX) is a premier specialty coffee retailer with around 35,000 stores worldwide. Despite the pandemic's impact, the company delivered impressive returns of approximately 135% in the previous five years at a CAGR (compounded annual growth rate) of 18.5%. However, this year has been more challenging. The global coffee chain faces ongoing geopolitical tensions, COVID-related restrictions in China, and a weakening economic outlook. The company has lost around 25% of its stock value since the beginning of this year.

So, is there more pain, or should investors start accumulating the stock? Let's first discuss its performance in its recently announced third-quarter earnings and growth prospects.

Starbucks's third quarter performance

In August, Starbucks reported a solid third-quarter performance, outperforming analysts' expectations. Despite rising inflation, the company posted a global same-store sales growth (SSSG) of 3%, driving its revenue to US$8.15 billion against analysts' expectations of US$8.11 billion. The company's management has credited the company's pricing power and customer loyalty for solid sales growth.

With the reopening of the economy, Starbucks posted impressive same store sales growth (SSSG) of 9% in the United States Notably, morning sales and iced shaken espresso posted remarkable growth. However, the company's SSSG in the international markets fell by 18%, primarily due to the pandemic-induced restrictions in China.

The company's adjusted operating margins fell 400 basis points due to sales deleverage amid the lockdown in China, inflation, and increased investments in its partners or employees. Also, its adjusted EPS (earnings per share) came in at $0.84, which beat analysts' expectations of $0.75. However, compared to the previous year, its adjusted EPS declined by 15%. His decline was primarily due to the contraction of its operating margins. Now, let's look at its growth prospects.

Starbucks’s outlook

Despite the inflationary environment and global headwinds, Starbucks has not witnessed a substantial decline in its footfalls or sales. Stability in these key sales metrics is encouraging. The company is focused on deepening customer engagement. To improve the customer experience, it is improving product innovation and adopting technological advancements. At the end of Q3, the company had 27.4 million active users in its loyalty program, Starbucks Rewards, representing year-over-year growth of 13%.

The famous coffee house has also continued its store expansion, adding around 1,650 new stores over the previous four quarters. Also, the company could benefit from easing restrictions in China. Besides, Starbucks has expanded its partnership with **Nestle** to 81 markets. So, given its growth initiatives and loyal customer base, I expect SBUX stock to continue delivering solid performance in the coming quarters.

Dividends and valuation

Starbucks started paying dividends in 2010. Since then, it has been raising dividends uninterruptedly for the previous 12 years. Last month, it hiked its quarterly dividend from US$0.49/share to US$0.53/share, with its forward yield currently standing at a juicy 2.46%. So far this year, the company has returned around $6 billion to its shareholders through dividends and share repurchases.

Amid the recent sell-off, the company’s NTM (next 12 months) price-to-earnings has declined to 27.6, lower than its historical average. Given its solid underlying business, growth prospects, and attractive valuation, I believe Starbucks would be an ideal addition to any portfolio despite the volatility. The favourite chain of latté drinkers will also help diversify your portfolio.

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