Archer Daniels (ADM)

$37.58 (As of 04/10/20)

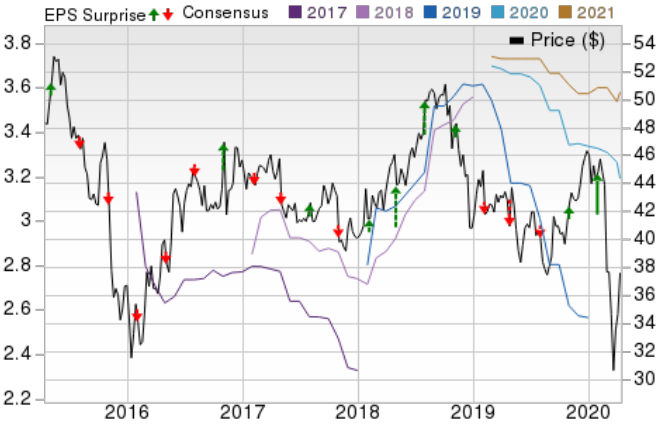
Price Target (6-12 Months): **$40.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/02/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: D | Momentum: C	

Summary

Shares of Archer Daniels have slid and lagged in the past three months. The company is witnessing year-over-year decline in adjusted operating profit at Carbohydrate Solutions segment for a while. Moreover, rise in SG&A expenses and increased interest expenses remain concerns. However, the company's progress on its three strategic pillars including optimize, drive and growth look encouraging. Its Readiness goals of driving business growth, standardizing functions and enriching consumers' experience are also well on track. Further, it is benefiting from strength in the Nutrition segment. These factors have aided quarterly results in the past few quarters. Consequently, it delivered the fourth straight quarter of positive sales surprise and second straight quarter of earnings surprise in fourth-quarter 2019.

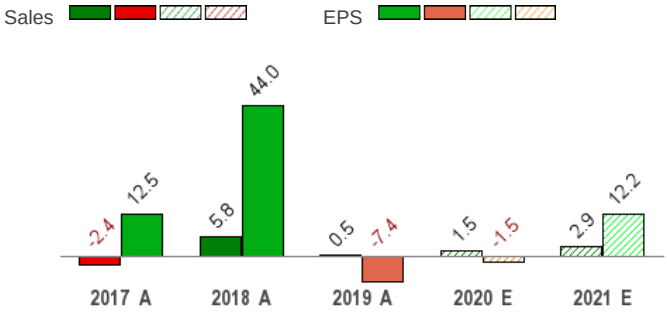
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$47.20 - $28.92**
20 Day Average Volume (sh)	**4,086,245**
Market Cap	**$20.9 B**
YTD Price Change	**-18.9%**
Beta	**1.02**
Dividend / Div Yld	**$1.44 / 3.8%**
Industry	**Agriculture - Operations**
Zacks Industry Rank	**Top 37% (94 out of 253)**
Last EPS Surprise	**79.8%**
Last Sales Surprise	**8.3%**
EPS F1 Est- 4 week change	**-3.1%**
Expected Report Date	**04/24/2020**
Earnings ESP	**-3.5%**
P/E TTM	**11.6**
P/E F1	**11.8**
PEG F1	**NA**
P/S TTM	**0.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	13,675 E	19,723 E	19,067 E	14,561 E	67,576 E
2020	15,170 E	16,127 E	16,850 E	16,410 E	65,648 E
2019	15,304 A	16,297 A	16,726 A	16,329 A	64,656 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.81 E	$1.01 E	$1.02 E	$0.93 E	$3.58 E
2020	$0.58 E	$0.82 E	$0.93 E	$1.00 E	$3.19 E
2019	$0.46 A	$0.60 A	$0.77 A	$1.42 A	$3.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

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Overview

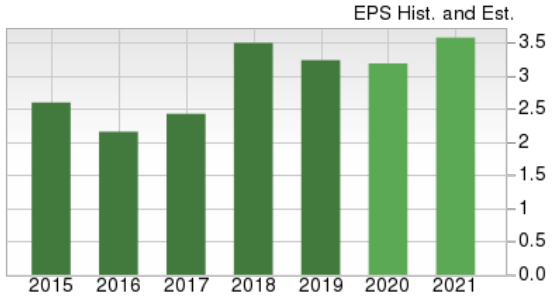
Incorporated in Delaware in 1923, Archer Daniels Midland Company is successor to the Daniels Linseed Co. Founded in 1902, this Illinois-based company is one of the leading producers of food and beverage ingredients as well as goods made from various agricultural products.

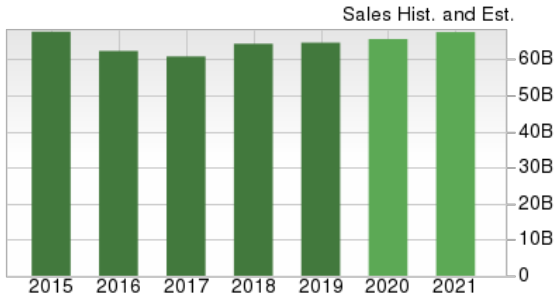
The company processes oilseeds, corn, wheat, cocoa and other feedstuffs. Moreover, it engages in the manufacturing, sale, and distribution of products like natural flavor ingredients, flavor systems, natural colors, proteins, emulsifiers, soluble fiber, polyols, hydrocolloids, natural health and nutrition products as well as other specialty food and feed ingredients.

Archer Daniels also has a worldwide grain elevator and transportation network for procurement, storage, cleansing and transportation of agricultural commodities. Archer Daniels also makes important investments in joint ventures to aid growth.

Starting first-quarter 2018, the company realigned its business segments to reflect a new operating structure. It currently reports through the Carbohydrate Solutions, Nutrition, Oilseeds and Origination segments.

On May 29, 2019, Archer Daniels created a new business unit, namely, Ag Services & Oilseeds. The unit combined the company's Origination and Oilseed operations in a single reporting structure which came into operations from Jul 1, 2019.





- The **Ag Services & Oilseeds** (75.4% of 2019 total revenues) includes the Agricultural Services business, excluding Milling and engages in originating, merchandising, crushing and processing oilseeds.
- The **Carbohydrate** Solutions segment (15.3%) comprises the Corn and Milling operations.
- **Nutrition** segment (8.8%) includes Animal Nutrition and Bioactives businesses as well as the Wild Flavors & Specialty Ingredients segment (WFSI).
- The **Other** segment (0.5%) primarily includes the company's financial business units. However, it makes negligible contribution to the company's revenues.

Reasons To Buy:

> Archer Daniels' three strategic pillars, optimize, drive and growth bode well. Its Readiness goals of driving business growth, standardizing functions and enriching experience are on track.

- **Robust Q4 Results:** Archer Daniels posted better-than-expected earnings and sales results for fourth-quarter 2019. This marked the fourth straight quarter of positive sales surprise and second straight quarter of earnings surprise. Moreover, the company's top and bottom line improved on a year-over-year basis. Notably, the top line improved 2.4% on a year-over-year basis. Increased revenues in the Nutrition segment were the primary reason behind the impressive top-line results. Moreover, the company's adjusted earnings rose 61.4% from the year-ago quarter. Earnings benefited from the announcement of retroactive biodiesel tax credit (BTC) for 2018 and 2019, which provided subsidy for fuel made from cooking oil, soybean oil and animal fat. Additionally, strong Nutrition business, and robust global demand for biodiesel and food oils aided results.

  Going forward, management remains optimistic about Archer Daniels' leadership in key global trends like flexitarian diets, nutrition and sustainable materials. Moreover, the company remains focused on making investments in assets and technological capabilities to serve customers efficiently and aid overall growth.

- **Nutrition Segment Aids Performance:** Archer Daniels is gaining from robust performance at its Nutrition segment. In the fourth quarter of 2019, the company's top line benefited from robust sales growth in the Nutrition segment. Revenues for Nutrition segment rose 57% year over year, with adjusted operating profit up 64.5% owing to significant gains in WFSI and Animal Nutrition units. Results for WFSI benefited from robust sales and margins for WILD in North America, EMEAI and APAC. The Specialty Ingredients unit gained from sustained margin growth in proteins. Health & Wellness results were aided by new agreement for ADM fermentation capacity. In Animal Nutrition, results reflected positive contributions from Neovia, offset by persistent losses in lysine on weak global pricing environment.

  Prior to this, revenues from Nutrition segment increased 58%, 49.7% and 34.9%, in the third, second and first quarter of 2019, respectively. For first-quarter 2020, the company expects nutrition segment results to be substantially higher than first-quarter 2019, with growth in operating profit at around 20%. Further, the Nutrition business is likely to benefit from the buyout of Yerbalatina Phytoactives, a Brazilian-based pioneering natural plant-based extracts maker. The addition of Yerbalatina to the company's portfolio will help serve customers in the foods and beverages space with healthy and natural-source products.

- **Strategic Pillars – Optimize, Drive & Growth:** Archer Daniels has been significantly progressing on its three strategic pillars — optimize, drive, and growth. Under the optimize pillar, the company is on track with improvement in its key businesses - the Decatur complex, Golden Peanut and Three Nuts business. The company is restructuring its North American wheat milling footprint by shutting old less efficient mills and opening new, state-of-the-art facility in Mendota. The company completed a significant global organization redesign, which includes early retirement for certain North American colleagues and restructured management to enhance productivity and efficiency. In the fourth quarter, the company entered into an agreement to sell palm plantation operations in Brazil. Also, it sold investment in CIP advancing to ensure asset portfolio maximizes returns and aligns with core competencies.

  Under the drive pillar, the company launched its Ag Services and Oilseeds business unit and is delivering synergies created by simplifying the business model. Lastly, under the growth pillar, it is looking to expand its footprint in fast growing alternative protein through partnership with Marfrig. The company is also considering at enhancing its animal nutrition capabilities. Recently, Archer Daniels opened a modern technology center in Decatur and new feed production facility in Vietnam.

- **Project Readiness Bodes Well:** Archer Daniels is on track with the Readiness goals of driving business improvement, standardizing functions and enriching consumers' experience. As part of readiness efforts, the company introduced a company-wide simplification initiative. The company's strategic pillars for growth as well as the aforementioned new initiatives are guided and supported by the Readiness program, focused on accelerating and enhancing competitiveness. By the end of 2019, the company completed 435 Readiness initiatives, which in total account for $815 million in run-rate benefits on an annual basis. It remains on track to deliver $1.2 billion savings by the end of 2020.

Reasons To Sell:

- **Dismal Carbohydrate Solutions' Operating Profit:** Archer Daniels is witnessing decline in adjusted operating profit for the Carbohydrate Solutions segment for a while now. In the fourth quarter, the Carbohydrate Solutions segment's adjusted operating profit fell 11.7% owing to decline in Bio-products, partly offset by strong results from Starches and Sweeteners. Results for Bio-products were principally hurt by unfavorable ethanol industry margins. Meanwhile, lower manufacturing costs and higher income from co-products in North America primarily aided results for Starches and Sweeteners. This was partly offset by soft margins in EMEAI. Further, results gained from strong performance at global wheat milling. Prior to this, adjusted operating profit for the Carbohydrate Solutions segment declined 36.8%, 22.3% and 54.9% in the third, second and first quarter of 2019, respectively.

> Archer Daniels is witnessing dismal adjusted operating profit for the Carbohydrate Solutions segment. In first-quarter 2020, the segment results are likely to be hurt by weak ethanol margins.

Going ahead, the company will start reporting Carbohydrate Solutions business in two sub segments; starches and sweeteners and Vantage Corn Processors (VCP). For the first quarter of 2020, the company expects starches and sweeteners to see benefits driven by improved manufacturing costs and anticipate EMEA results to be higher than the first quarter of 2019. However, the company projects VCP to continue to be impacted by challenged industry ethanol margins. Moreover, the company expects Carbohydrate Solutions segment results in first-quarter 2020 to be down sequentially, if there is no improvement in the ethanol industry margin environment. We note that, shares of the company have declined 15.5% in the past three months compared with the industry's fall of 11.5%.

- **Higher Debt Level May Impact Credit Worthiness:** Archer Daniels ended fourth-quarter 2019 with a total debt of $8,881 million, up from $8,388 million in the year-ago period. Moreover, interest expense increased 10.4% year over year to $402 million in 2019, compared to $364 million in 2018. Higher debt level may adversely impact the company's credit worthiness and make it more susceptible to the macro-economic factors and competitive pressures.

- **Higher SG&A Expenses:** Archer Daniels is grappling with rising costs. Any deleverage in SG&A expenses has a direct bearing on the company's profitability. We note that SG&A expenses increased $96 million to $654 million in the fourth quarter of 2019. Prior to this, SG&A expenses increased $44 million, $42 million and $146 million in the third, second and first quarter, respectively.

- **Intense Competition May Adversely Impact Operations:** Archer Daniels faces intense competition from its rivals, such as Cargill Inc., Bunge Ltd. and Corn Products International Inc. in all segments of the markets where it operates. These markets are extensively competitive and hence, the company faces the risk of availability of substitutes. Being part of such a competitive industry, Archer Daniels may find it difficult to execute and implement new business strategies, which in turn, may impact its operations adversely.

Last Earnings Report

Archer Daniels Q4 Earnings Beat, Nutrition Unit Aids

Quarter Ending	12/2019
Report Date	**Jan 29, 2020**
Sales Surprise	**8.28%**
EPS Surprise	**79.75%**
Quarterly EPS	**1.42**
Annual EPS (TTM)	**3.25**

Archer Daniels Midland Company reported better-than-expected earnings and sales results for fourth-quarter 2019.

Adjusted earnings of $1.42 per share rose 61.4% from the year-ago quarter and outpaced the Zacks Consensus Estimate of 79 cents. On a reported basis, the company's earnings were 90 cents per share, up 63.6% from the prior-year quarter.

Earnings, on a reported and adjusted basis, benefited from the announcement of retroactive biodiesel tax credit (BTC) for 2018 and 2019, which provided subsidy for fuel made from cooking oil, soybean oil and animal fat. This led to incremental earnings of 61 cents per share in the fourth quarter. Additionally, strong Nutrition business, and robust global demand for biodiesel and food oils aided results.

Revenues improved 2.4% year over year to $16,329 million and surpassed the Zacks Consensus Estimate of $15,080 million. The top line benefited from robust sales growth in the Nutrition segment.

Operational Discussion

Going by segments, revenues for Nutrition segment rose 57% year over year to $1,414 million. Meanwhile, revenues for Ag Services & Oilseeds, and Carbohydrate Solutions segments were $12,359 million and $2,477 million, respectively, reflecting a decline of 0.8% each. Revenues for the Other segment declined 12.2% to $79 million.

Moreover, Archer Daniels reported adjusted segment operating profit of $1,028 million in fourth-quarter 2019, up 19.5% from the year-ago quarter. On a GAAP basis, the company's segmental operating profits rose 18.8% year over year to $934 million.

On a segmental adjusted basis, adjusted operating profit at Ag Services & Oilseeds improved 20.2% year over year to $739 million. Operating results gained from the passage of BTC. Operating results for the Ag Services business were slightly down year over year on softness in North America due to a delayed harvest in the United States. This led to lower exports and a consequent decline in margins. Meanwhile, improved margins, stemming from robust export demand and farmer selling, aided results in South America.

The Crushing business witnessed strong margins, which was lower than the record levels seen last year. However, Crushing results remained soft year over year, owing to negative impacts of timing in the reported quarter. Operating results for Refined Products and Other improved substantially on gains from the passage of BTC. Additionally, the unit witnessed strong and substantial gains from robust global demand for biodiesel and food oils as well as the Algar Agro acquisition in Brazil. Meanwhile, Wilmar witnessed a slight improvement year over year.

The Carbohydrate Solutions segment's adjusted operating profit declined 11.7% to $174 million, owing to strong results from Starches and Sweeteners, offset by a decline in Bio-products. Lower manufacturing costs and higher income from co-products in North America primarily aided results for Starches and Sweeteners. This was partly offset by soft margins in EMEAI. Further, results gained from strong performance at global wheat milling. Meanwhile, results for Bio-products were principally hurt by unfavorable ethanol industry margins.

At the Nutrition segment, adjusted operating profit of $102 million improved 64.5% from $62 million in the year-ago quarter, owing to significant gains in WFSI and Animal Nutrition units. Results for WFSI benefited from robust sales and margins for WILD in North America, EMEAI and APAC. The Specialty Ingredients unit gained from sustained margin growth in proteins, offset largely by soft sales volume and margins in emulsifiers as well as lower edible beans margins. Health & Wellness results were aided by new agreement for ADM fermentation capacity. In Animal Nutrition, results reflected positive contributions from Neovia, offset by persistent losses in lysine on weak global pricing environment.

Other Financials

Archer Daniels ended 2019 with cash and cash equivalents of $852 million, long-term debt — including current maturities — of $7,679 million, and shareholders' equity of $19,225 million.

In 2019, the company used $5,452 million in cash for operating activities. Additionally, it bought back shares of $150 million and paid out dividends of $789 million in 2019. Further, its average trailing four-quarter adjusted return on invested capital (ROIC) was 7.5%.

Recent News

Archer Daniels Hikes Dividend – Jan 30, 2020

Archer Daniels announced a 2.85% hike in its quarterly cash dividend to 36 cents per share, which is payable on Mar 5, 2020 to its shareholders of record as of Feb 13.

Archer Daniels' Yerbalatina Buyout to Boost Natural Products – Jan 7, 2020

Archer Daniels recently bought Yerbalatina Phytoactives, a Brazilian-based pioneering natural plant-based extracts maker. With this buyout, the company will be able to enhance its presence in Brazil, where it has an extensive human and animal nutrition business. Through this buyout, Archer Daniels will be able to serve customers with healthy and natural-source products in the foods and beverages space.

Notably, Yerbalatina uses proprietary cool-drying technology to transform fruits, vegetables and plants like acerola, acai, green coffee into a wide range of extracts. Moreover, it has a range of more than 100 botanical products and solutions, which include healthy ingredients as well as organic powdered fruits, food colorings, vegetable milks and nutritional extracts.

Furthermore, Archer Daniels is likely to benefit from Yerbalatina's natural botanical extracts that comprise organic-certified ingredients, R&D competencies and expertise. This will reinforce the company's leadership in science-based microbiome solutions for human and animal wellness.

We note that the global retail market for foods, beverages and supplements, highlighting health & wellness concepts, is flourishing and is anticipated to reach $750 billion. Impressively, the addition of Yerbalatina to the company's portfolio is an important tool and will continue to leverage the power of nature to enrich human and animal health.

Valuation

Archer Daniels shares are down 19% in the year-to-date period and nearly 13.3% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 14.7% and 15.3%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 13.8% and 10.3%, respectively.

The S&P 500 index is down 13.7% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 11.08X forward 12-month earnings, which compares to 13.55X for the Zacks sub-industry, 18.24X for the Zacks sector and 18.11X for the S&P 500 Index.

Over the last five years, the stock has traded as high as 20.25X and as low as 9.37X, with a 5-year median of 14.48X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $40 price target reflects 11.79X forward 12-month earnings.

The table below shows summary valuation data for ADM

Valuation Multiples - ADM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.08	13.55	18.24	18.11
	5-Year High	20.25	16.29	22.37	19.34
	5-Year Low	9.37	10.6	16.49	15.19
	5-Year Median	14.48	14.11	19.66	17.45
P/S F12M	Current	0.31	0.44	8.85	2.81
	5-Year High	0.44	0.51	11.16	3.19
	5-Year Low	0.26	0.19	8.1	2.38
	5-Year Median	0.37	0.25	9.89	2.85
EV/EBITDA TTM	Current	7.52	6.98	32.82	10.17
	5-Year High	14.28	10.74	45.11	12.87
	5-Year Low	6.03	4.74	27.13	8.27
	5-Year Median	8.99	7.37	38.38	10.78

As of 04/09/2020

Industry Analysis **Zacks Industry Rank:** Top 37% (94 out of 253)

Top Peers

Bunge Limited **(BG)**	Outperform
Adecoagro S.A. **(AGRO)**	Neutral
B&G Foods, Inc. **(BGS)**	Neutral
Corteva, Inc. **(CTVA)**	Neutral
Calavo Growers, Inc. **(CVGW)**	Neutral
Limoneira Co **(LMNR)**	Neutral
United Natural Foods, Inc. **(UNFI)**	Neutral
Metabolix, Inc. **(YTEN)**	Neutral

Industry Comparison Industry: Agriculture - Operations

Industry Peers

	ADM Neutral	X Industry	S&P 500	AGRO Neutral	CVGW Neutral	LMNR Neutral
VGM Score	C	-	-	A	F	F
Market Cap	20.94 B	76.91 M	19.66 B	530.35 M	1.12 B	232.51 M
# of Analysts	5	1.5	13	2	2	3
Dividend Yield	3.83%	0.00%	2.18%	0.00%	1.72%	2.30%
Value Score	B	-	-	A	D	F
Cash/Price	0.28	0.11	0.06	0.69	0.00	0.00
EV/EBITDA	7.81	2.32	11.72	2.69	15.20	87.16
PEG Ratio	NA	3.50	2.04	NA	NA	5.21
Price/Book (P/B)	1.09	0.88	2.66	0.52	3.92	1.09
Price/Cash Flow (P/CF)	7.41	3.93	10.44	2.04	16.83	278.80
P/E (F1)	11.24	19.52	17.51	6.79	20.70	78.12
Price/Sales (P/S)	0.32	0.93	2.12	0.62	0.93	1.36
Earnings Yield	8.49%	3.07%	5.65%	14.73%	4.84%	1.31%
Debt/Equity	0.40	0.27	0.70	0.93	0.24	0.59
Cash Flow ($/share)	5.07	0.17	7.01	2.23	3.79	0.05
Growth Score	D	-	-	A	F	F
Hist. EPS Growth (3-5 yrs)	3.80%	12.83%	10.92%	73.32%	12.83%	54.90%
Proj. EPS Growth (F1/F0)	-1.54%	22.98%	-1.14%	97.06%	2.15%	137.04%
Curr. Cash Flow Growth	-3.42%	16.03%	5.93%	5.84%	17.65%	-94.50%
Hist. Cash Flow Growth (3-5 yrs)	-1.15%	9.45%	8.55%	13.14%	15.90%	-40.15%
Current Ratio	1.55	1.78	1.24	1.78	1.28	1.41
Debt/Capital	28.68%	25.09%	42.36%	48.13%	19.09%	36.15%
Net Margin	2.13%	-3.64%	11.64%	-0.09%	2.58%	-4.49%
Return on Equity	9.63%	1.71%	16.74%	3.97%	14.26%	-4.97%
Sales/Assets	1.51	0.43	0.54	0.35	2.88	0.43
Proj. Sales Growth (F1/F0)	1.53%	0.00%	0.45%	7.15%	10.56%	3.05%
Momentum Score	C	-	-	D	B	F
Daily Price Chg	3.02%	0.08%	2.48%	6.56%	2.08%	0.08%
1 Week Price Chg	3.43%	-2.23%	-4.40%	-12.17%	7.56%	-7.45%
4 Week Price Chg	19.15%	0.00%	11.26%	2.02%	20.26%	13.32%
12 Week Price Chg	-17.12%	-17.67%	-20.02%	-43.20%	-20.91%	-37.10%
52 Week Price Chg	-13.19%	-24.81%	-11.31%	-34.44%	-28.81%	-45.89%
20 Day Average Volume	4,086,245	33,795	3,931,994	837,730	277,117	89,780
(F1) EPS Est 1 week change	0.00%	0.00%	-0.12%	22.56%	0.00%	-13.79%
(F1) EPS Est 4 week change	-3.10%	0.00%	-5.78%	22.56%	0.00%	-50.98%
(F1) EPS Est 12 week change	-4.38%	-4.38%	-7.64%	1.00%	-15.25%	-57.63%
(Q1) EPS Est Mthly Chg	-2.98%	0.00%	-10.13%	NA	0.00%	-59.02%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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