

Archer Daniels (ADM)

\$45.34 (As of 01/16/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: C

Summary

Shares of Archer Daniels have risen and outpaced the industry in the past three months. The stock has received a boost from the strong third-quarter 2019 results. Earnings and sales beat the Zacks Consensus Estimate in the third quarter. Moreover, the company's significant progress on its three strategic pillars including optimize, drive and growth looks encouraging. Further, its Readiness goals of driving business improvement, standardizing functions and enriching consumers' experience are well on track, and likely to contribute \$250-\$300 million to earnings in 2019. However, higher COGS, rise in SG&A expenses and increased interest expenses weighed on earnings growth in the quarter. Moreover, its adjusted segment operating profit fell year over year owing to declines in the Ag Services & Oilseeds and Carbohydrate Solutions segments.

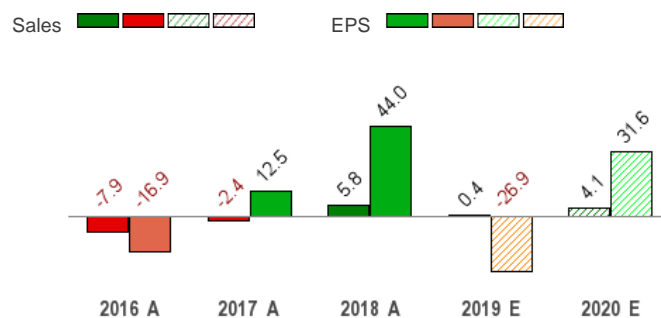
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.20 - \$36.45
20 Day Average Volume (sh)	2,385,772
Market Cap	\$25.2 B
YTD Price Change	-2.2%
Beta	1.08
Dividend / Div Yld	\$1.40 / 3.1%
Industry	Agriculture - Operations
Zacks Industry Rank	Bottom 28% (182 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.9%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	01/29/2020
Earnings ESP	-8.1%
P/E TTM	16.7
P/E F1	13.5
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	12,684 E	19,844 E	19,857 E	15,628 E	67,209 E
2019	15,304 A	16,297 A	16,726 A	15,080 E	64,569 E
2018	15,526 A	17,068 A	15,800 A	15,947 A	64,341 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.71 E	\$0.96 E	\$1.00 E	\$0.95 E	\$3.37 E
2019	\$0.46 A	\$0.60 A	\$0.77 A	\$0.74 E	\$2.56 E
2018	\$0.68 A	\$1.02 A	\$0.92 A	\$0.88 A	\$3.50 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 01/16/2020. The reports text is as of 01/17/2020.

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.

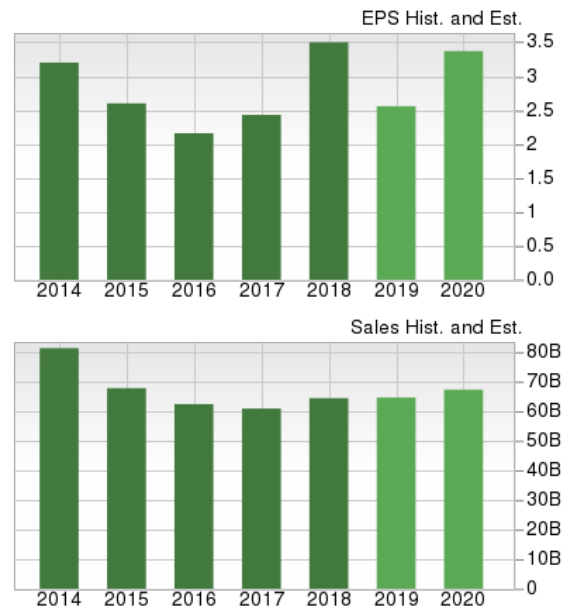
The company processes oilseeds, corn, wheat, cocoa and other feedstuffs. Moreover, it engages in the manufacturing, sale, and distribution of products like natural flavor ingredients, flavor systems, natural colors, proteins, emulsifiers, soluble fiber, polyols, hydrocolloids, natural health and nutrition 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** segment (75.4% of 3Q19 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 (8.7%) includes Animal Nutrition and Bioactives businesses as well as the Wild Flavors & Specialty Ingredients segment (WFSI).
- The **Other** segment (0.6%) primarily includes the company's financial business units. However, it makes negligible contribution to the company's revenues.



Reasons To Buy:

▲ **Robust Q3 Results:** Shares of Archer Daniels have increased 14.4% in the past three months, outperforming the industry's gain of 13.6%. This outperformance can be attributed to the company's robust third-quarter 2019 results, wherein earnings and sales surpassed the Zacks Consensus Estimates. Also, the top line improved on a year-over-year basis. Quarterly results benefited from the company's consistent efforts amid a tough external environment and a weak ethanol industry. Increased revenues across all the segments were the primary reason behind the impressive top-line results. Quarterly revenues at the Ag Services & Oilseeds, Carbohydrate Solutions, Nutrition, and Other grew 2.9%, 1.2%, 58% and 4.8%, respectively. 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.

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

▲ **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 has been reaping benefits from merger of the Origination and Oilseeds business segments into a single unit — Ag Services and Oilseeds. With the help of this new business, the company has identified a wide range of opportunities to improve capital efficiency. Archer Daniels has already executed more than \$200 million of capital reduction initiatives. As part of ongoing efforts to optimize its U.S. origination footprint, the company completed its earlier agreement with Cargill to exchange grain elevators in Illinois and Indiana. Also, it opened new state-of-the-art mill in Mendota, Illinois, an important milestone in ongoing process of replacing older, higher cost plants with more efficient facilities. The company is likely to see the positive impact of these measures to improve the long-term reliability of Decatur complex.

Under the drive pillar, the company is gaining from improved analytics, technologies and processes after the launch of Readiness last year. It is implementing innovative uses of Artificial Intelligence (AI), machine learning and robotic process automation to identify and solve IT issues, reduce costs and improve efficiencies. Lastly, under the growth pillar, the company is focusing on major global trends that have the potential to fundamentally change markets and solidifying its global leadership position.

▲ **Project Readiness Bodes Well:** Archer Daniels is on track with the Readiness goals of driving business improvement, standardizing functions and enriching consumers' experience. 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. As of third-quarter 2019, the company has prioritized 218 Readiness initiatives. These completed initiatives are likely to generate run-rate benefits of about \$515 million on an annual basis, remaining on track to deliver \$1.2 billion by the end of 2020. Further, Archer Daniels now estimates these initiatives to contribute about \$250-\$300 million in accrued benefits by the end of 2019.

▲ **Measures to Support Long-Term Value Creation:** Apart from the aforementioned strategic pillars and to combat the softness in the ethanol segment, the company announced three new measures. These measures will enable the company to enhance results and create long-term value. Firstly, Archer Daniels continues to improve its underperforming businesses. Moreover, it is seeing gains from Golden Peanut and Tree Nuts. It is also progressing well with its Decatur complex with regard to lysine production and plans to launch Vantage Corn Processors, the company's stand-alone ethanol subsidiary. Secondly, its Readiness is gaining speed and remains committed to make the company more efficient and customer-focused. The company is also advancing its IT foundational services and is on track with the 'One ADM' business transformation initiative. The initiative focuses on data enabling faster decision making as well as better processes and systems for enhanced reliability and productivity. Finally, the company is working to harvest its growth investments efficiently, and continues to deliver synergies from the Neovia buyout which is aiding results. Also, it remains focused to fully integrate its recent acquisitions to achieve synergic benefits.

Reasons To Sell:

▼ **Dismal Adjusted Operating Profit:** Archer Daniels is witnessing decline in adjusted segment operating profit for a while now. In the third quarter, the company reported adjusted segment operating profit of \$764 million, down 11.3% from the year-ago quarter. On a segmental adjusted basis, adjusted operating profit at the Ag Services & Oilseeds segment declined 12.8% year over year to \$417 million. Ag Services' results remained flat with the year-ago quarter. In addition, crushing's results were lower than the year-ago period, driven by weak crush margins globally. For the fourth quarter, the company's Ag Services and Oilseeds performance are expected to be substantially lower year over year, though performance should be stronger than the third quarter, and crushing is expected to be sequentially down.

Archer Daniels is witnessing dismal adjusted segment operating profit for a while now. In the third quarter, the company's adjusted segment operating profit declined 11.3% to \$764 million.

The Carbohydrate Solutions segment's adjusted operating profit plunged 36.8% to \$182 million. The downside can mainly be attributed to weak Bioproducts results due to negative ethanol industry margins. Starches and Sweeteners were also down. Moreover, results in North America were hurt by increased net corn expenses, somewhat mitigated with lower manufacturing costs, including improvements at the Decatur corn facility. Further, results in EMEA were marred by lower selling prices along with pressures from Turkish sweetener quotas. In wheat milling, higher sales volume was more than offset by weak margins, driven by lower opportunities in wheat procurement. Moreover, the company expects Carbohydrate Solutions to remain challenging in the fourth quarter. Persistence of decline in adjusted segment operating profit might hurt the company's profitability.

▼ **Higher Debt Level May Impact Credit Worthiness:** Archer Daniels ended third-quarter 2019 with a total debt of \$8,888 million, up from \$7,852 million in the year-ago period. As a result, interest expense increased 11.5% year over year to \$97 million during the third quarter due to higher borrowings to fund recent acquisitions. Prior to this, interest expense increased 22.5% and 11%, respectively, in the second and first quarter. 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 \$44 million to \$578 million in the third quarter of 2019, due to new acquisitions and higher spending on IT, growth-related investments, and Readiness-related projects, partially offset by lower variable performance-related and stock compensation expenses. Prior to this, SG&A expenses increased \$42 million and \$146 million in the 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 Q3 Earnings & Sales Beat Estimates

Archer Daniels reported better-than-expected earnings and sales numbers in third-quarter 2019. Moreover, the top line improved on a year-over-year basis.

Quarterly results benefited from the company's consistent efforts amid a tough external environment and a weak ethanol industry. 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.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	4.37%
EPS Surprise	14.93%
Quarterly EPS	0.77
Annual EPS (TTM)	2.71

Q3 in Detail

Adjusted earnings of 77 cents per share declined 16.3% from the year-ago quarter but outpaced the Zacks Consensus Estimate of 67 cents. On a reported basis, the company's earnings were 72 cents per share, down 23.4% from the prior-year quarter.

Revenues in the quarter under review totaled \$16,726 million, which grew 5.9% year over year and outpaced the Zacks Consensus Estimate of \$16,026 million. Increased revenues across all the segments of the company were the primary reason behind the impressive top-line results.

Effective third-quarter 2019, Archer Daniels merged its Origination and Oilseeds segments into a single business — Ag Services & Oilseeds. This action was taken to offset the impacts of adverse weather conditions in the first six months of 2019.

Going by segments, quarterly revenues at the Ag Services & Oilseeds, Carbohydrate Solutions, Nutrition, and Other grew 2.9%, 1.2%, 58% and 4.8%, respectively, to \$12,616 million, \$2,565 million, \$1,457 million, and \$88 million.

Operational Discussion

Archer Daniels reported adjusted segment operating profit of \$764 million in third-quarter 2019, down 11.3% from the year-ago quarter. On a GAAP basis, the company's segment operating profit fell nearly 14% year over year to \$758 million.

On a segmental adjusted basis, adjusted operating profit at the **Ag Services & Oilseeds** segment declined 12.8% year over year to \$417 million. Moreover, Ag Services' results remained flat with the year-ago quarter. In South America, results benefited from improved origination margins in Brazil and higher export volume from Argentina. In North America, the company witnessed improved merchandising results, backed by favorable ownership positions, which compensated a tough volume and margin backdrop for U.S. exports.

Moreover, Crushing's results were lower than the year-ago period, driven by weak crush margins globally. In South America, continued exports of soybeans to China hurt margins. However, crush margins remained impressive in North America and EMEA. Global crush margins somewhat benefited from favorable net timing effects of roughly \$50 million during the reported quarter. Furthermore, Refined Products and Other's results were considerably higher than the year-ago quarter, primarily fueled by improvements in Golden Peanut and Tree Nuts. The segment's performance was hurt by lower Wilmar results.

The **Carbohydrate Solutions** segment's adjusted operating profit plunged 36.8% to \$182 million. The downside can mainly be attributed to weak Bioproducts results due to negative ethanol industry margins. Starches and Sweeteners were also down. Moreover, results in North America were hurt by increased net corn expenses, somewhat mitigated with lower manufacturing costs, including improvements at the Decatur corn facility. Further, results in EMEA were marred by lower selling prices along with pressures from Turkish sweetener quotas. In wheat milling, higher sales volume was more than offset by weak margins, driven by lower opportunities in wheat procurement.

At the **Nutrition** segment, adjusted operating profit of \$118 million improved substantially from \$67 million, owing to impressive performance at both WFSI and Animal Nutrition. While increased sales and margins globally aided results for WILD, continued expansion in protein business fueled results at Specialty Ingredients. Further, contributions from investments in bioactives and fibers aided the Health & Wellness business. In Animal Nutrition, results were primarily backed by contributions from the Neovia buyout. Improvements in vitamin additives coupled with increased lysine production, despite adverse impact of pricing, further drove results.

Other Financials

Archer Daniels ended the quarter with cash and cash equivalents of \$932 million, long-term debt — including current maturities — of \$7,646 million, and shareholders' equity of \$18,895 million.

During the first nine months of 2019, the company generated negative cash flow of \$3,939 million from operating activities. Additionally, the company bought back shares of \$150 million and paid out dividends of \$592 million in the same period.

Further, its average trailing four-quarter adjusted ROIC was 6.5%.

Recent News

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

Archer Daniels recently bought Yeralatina 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.

Archer Daniels Declares Dividend – Nov 7, 2019

Archer Daniels announced a quarterly cash dividend of 35 cents per share, which is paid on Dec 12, 2019 to its shareholders of record as of Nov 21.

Valuation

Archer Daniels shares are up 2.5% for the trailing 12-month period. Over the past year, the Zacks sub-industry is down 1.1% but the Zacks Consumer Staples sector 16.8%.

The S&P 500 index is up 23.3% in the past year.

The stock is currently trading at 13.55X forward 12-month earnings, which compares to 14.94X for the Zacks sub-industry, 19.96X for the Zacks sector and 19.13X for the S&P 500 Index.

Over the last five years, the stock has traded as high as 20.25X and as low as 9.91X, with a 5-year median of 14.45X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$48 price target reflects 14.35X 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	13.55	14.94	19.96	19.13
	5-Year High	20.25	16.44	22.38	19.34
	5-Year Low	9.91	10.66	16.66	15.17
	5-Year Median	14.45	14.35	19.76	17.44
P/S F12M	Current	0.38	0.46	10.24	3.55
	5-Year High	0.44	0.48	11.13	3.55
	5-Year Low	0.26	0.21	8.09	2.54
	5-Year Median	0.37	0.28	9.87	3
EV/EBITDA TTM	Current	9.1	8.49	40.3	12.12
	5-Year High	14.04	10.51	44.94	12.86
	5-Year Low	6.07	4.74	31.54	8.48
	5-Year Median	7.18	7.18	38.33	10.67

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 254)



Top Peers

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

Industry Comparison Industry: Agriculture - Operations				Industry Peers		
	ADM Neutral	X Industry	S&P 500	AGRO Neutral	CVGW Outperform	LMNR Underperform
VGM Score	D	-	-	A	B	D
Market Cap	25.24 B	82.24 M	24.61 B	933.65 M	1.42 B	369.29 M
# of Analysts	5	2	13	3	1	3
Dividend Yield	3.09%	0.00%	1.74%	0.00%	1.36%	1.45%
Value Score	B	-	-	A	C	D
Cash/Price	0.22	0.10	0.04	0.15	0.01	0.00
EV/EBITDA	8.18	3.37	14.24	4.10	18.15	22.15
PEG Ratio	NA	2.54	2.07	NA	NA	3.51
Price/Book (P/B)	1.34	0.94	3.38	0.94	4.97	1.66
Price/Cash Flow (P/CF)	8.70	5.26	13.75	3.80	21.28	443.25
P/E (F1)	13.51	19.58	19.09	12.07	22.18	52.63
Price/Sales (P/S)	0.39	1.16	2.68	1.12	1.19	2.15
Earnings Yield	7.43%	3.20%	5.24%	8.24%	4.51%	1.88%
Debt/Equity	0.40	0.27	0.72	0.86	0.02	0.48
Cash Flow (\$/share)	5.21	0.16	6.94	2.11	3.79	0.05
Growth Score	F	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	1.71%	1.71%	10.56%	89.72%	14.35%	30.18%
Proj. EPS Growth (F1/F0)	31.74%	27.99%	7.57%	134.12%	20.53%	187.41%
Curr. Cash Flow Growth	26.37%	14.88%	14.73%	52.55%	17.65%	-94.50%
Hist. Cash Flow Growth (3-5 yrs)	3.54%	10.51%	9.00%	23.55%	15.90%	5.44%
Current Ratio	1.60	1.61	1.24	1.55	1.41	1.11
Debt/Capital	28.91%	21.54%	42.99%	46.26%	1.86%	31.29%
Net Margin	1.85%	-3.47%	11.14%	-1.76%	3.06%	-3.47%
Return on Equity	8.06%	2.82%	17.16%	2.82%	18.59%	-3.43%
Sales/Assets	1.53	0.41	0.55	0.34	3.00	0.44
Proj. Sales Growth (F1/F0)	4.09%	0.00%	4.16%	14.31%	0.00%	15.63%
Momentum Score	C	-	-	B	A	D
Daily Price Chg	2.14%	0.00%	0.89%	-0.74%	0.85%	3.04%
1 Week Price Chg	-4.50%	0.00%	0.39%	1.93%	-5.84%	-3.83%
4 Week Price Chg	-0.66%	0.00%	2.65%	-5.21%	-11.72%	8.60%
12 Week Price Chg	11.84%	0.78%	7.55%	31.53%	-10.98%	10.16%
52 Week Price Chg	4.45%	0.45%	22.12%	11.25%	-0.30%	-3.23%
20 Day Average Volume	2,385,772	46,686	1,536,375	231,820	174,129	46,686
(F1) EPS Est 1 week change	1.02%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.26%	0.00%	0.00%	0.00%	12.00%	-37.23%
(F1) EPS Est 12 week change	-1.17%	-1.70%	-0.40%	9.34%	11.31%	-36.90%
(Q1) EPS Est Mthly Chg	2.90%	0.00%	0.00%	NA	NA	-150.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Momentum Score	C
VGM Score	D

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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