

Archer Daniels (ADM)

\$39.00 (As of 05/28/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Although shares of Archer Daniels slid in the past three months, it outpaced the industry's performance. The stock received a boost from third straight quarter of positive earnings surprise in first-quarter 2020. Moreover, the company's significant progress on its three strategic pillars — optimize, drive and grow — looks encouraging. Its Readiness goals of driving the business, standardizing functions and enriching consumers' experience bodes well. Further, the company is gaining from robust performance in the Nutrition unit, owing to gains in the Human and Animal Nutrition units. However, it is witnessing year-over-year decline in adjusted operating profit for the Carbohydrate Solutions segment for a while, which is likely to persist in the second quarter. Moreover, rise in SG&A costs acts as a woe.

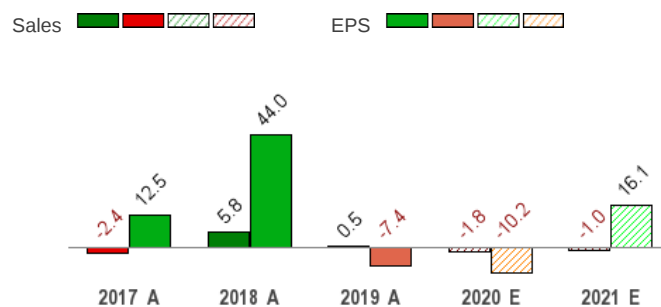
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.20 - \$28.92
20 Day Average Volume (sh)	2,724,306
Market Cap	\$21.7 B
YTD Price Change	-15.9%
Beta	0.94
Dividend / Div Yld	\$1.44 / 3.7%
Industry	Agriculture - Operations
Zacks Industry Rank	Top 35% (88 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.8%
Last Sales Surprise	-2.4%
EPS F1 Est- 4 week change	-6.6%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	11.4
P/E F1	13.4
PEG F1	NA
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	13,171 E	14,775 E	14,907 E	14,175 E	62,861 E
2020	14,970 A	15,171 E	15,292 E	15,896 E	63,470 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	\$0.78 E	\$0.96 E	\$0.96 E	\$0.87 E	\$3.38 E
2020	\$0.64 A	\$0.50 E	\$0.79 E	\$0.95 E	\$2.91 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 05/28/2020. The reports text is as of 05/29/2020.

Overview

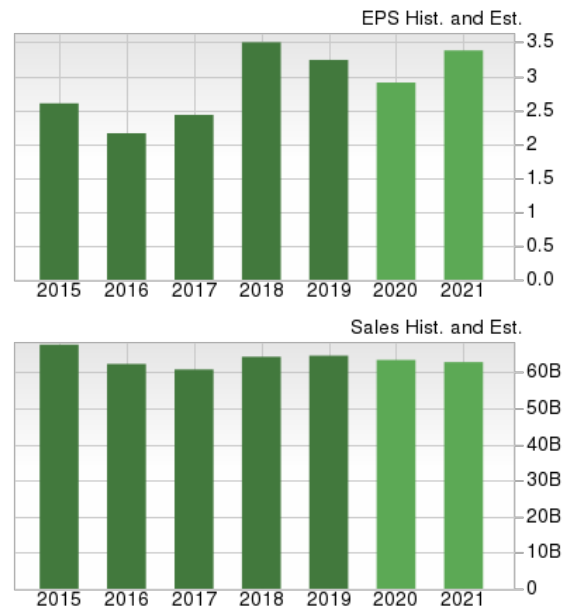
Incorporated in Delaware in 1923, Archer Daniels Midland Company is successor to the Daniels Linseed Co. Founded in 1902, this Illinois-based company is one of the leading producers of food and beverage ingredients as well as goods made from various agricultural products.

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** (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:

▲ **Robust Q1 Bottom Line:** Archer Daniels' bottom line beat the Zacks Consensus Estimate, marking its third straight quarter of earnings surprise. Further, adjusted earnings rose 39.1% from the year-ago quarter. On a reported basis, the company's earnings were 69 cents per share, up 68.3% from the prior-year quarter. Amid the ongoing COVID-19 crisis, results gained from improvement in its underperforming categories, the Readiness program and solid performance in the Nutrition unit. 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. Although shares of the company have declined 0.5% in the past three months, it fared better than the industry's fall of 3.6%.

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.

▲ **Nutrition Segment Aids Performance:** Archer Daniels is gaining from robust performance at its Nutrition segment. In the first quarter of 2020, the company's top line benefited from robust sales growth in the Nutrition segment. Revenues for the Nutrition segment rose 28.4% year over year, with adjusted operating profit up 75.3% owing to significant gains in Human and Animal Nutrition units. The Human Nutrition division gained from its diversified portfolio, higher sales in North America and EMEA flavors, robust performance in alternative proteins, and additional bioactives income. The Animal Nutrition unit retained growth in the quarter under review, driven by a solid performance from Neovia, strong volumes and margins in feed additives as well as sturdy sales in pet care.

Prior to this, revenues from Nutrition segment increased 57%, 58%, 49.7% and 34.9%, in the fourth, third, second and first quarters of 2019, respectively. Going ahead, management remains optimistic about this unit and envisions growth of more than 20% for 2020.

▲ **Strategic Initiatives:** 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. Further, under the growth pillar, the company 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. Also, Archer Daniels opened a modern technology center in Decatur and new feed production facility in Vietnam.

▲ **Financial Flexibility:** Archer Daniels ended first-quarter 2020 with a total debt of \$9,121 million, up from \$7,679 million in the prior-quarter. However, Archer Daniel's debt-to-capitalization ratio of 0.29 remains stable sequentially, but reflects a decline from 0.32 in the year-ago quarter. Moreover, interest expense declined 12.6% sequentially and 17.8% year over year to \$83 million in the first quarter. As of Mar 31, 2020, the company's cash and cash equivalents of \$4,734 million were sufficient to sponsor its short-term debt of \$3,382 million. Also, the company's times interest earned ratio of 5.3 reflects a sequential improvement from 5 in the prior quarter. This shows that Archer Daniels is well-positioned to meet its debt obligations.

Further, management is undertaking precautionary measures to strengthen its financial position amid the COVID-19 crisis. To this end, it has reduced capital spending to roughly \$800 million for 2020, down from its earlier guided view. Further, it issued a \$1.5 billion of term debt to neutralize the risk of commercial paper program. Also, it has a global credit facility of \$5.9 billion, which remains untouched.

▲ **Project Readiness Bodes Well:** Archer Daniels is on track with the Readiness goals of driving business improvement, standardizing functions and enriching consumers' experience. As a 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. Since the time the program was launched, the company generated \$920 million in run-rate benefits on an annual basis.

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 first quarter, the Carbohydrate Solutions segment's adjusted operating profit fell 29.2% owing to soft performance by Starches and Sweeteners due to adverse market impacts on forward sales of corn oil to the tune of nearly \$50 million. Excluding this impact, results improved year over year driven by lower manufacturing costs stemming from improvements in the Decatur complex in 2019. Also, strong demand for wheat due to increased hoarding by consumers, along with robust EMEA results due to healthy demand and reduced raw-material costs, contributed to growth. Prior to this, adjusted operating profit for the Carbohydrate Solutions segment declined 11.7%, 36.8%, 22.3% and 54.9% in the fourth, third, second and first quarters of 2019, respectively. Speaking of the other sub-segment, Vantage Corn Processors (VCP) witnessed softness in industry ethanol margins due to dismal demand. This was more than offset by effective risk management and favorable weather.
- Archer Daniels is witnessing dismal adjusted operating profit for the Carbohydrate Solutions segment. In second-quarter 2020, the segment results are likely to be hurt by weak ethanol margins.
- Going ahead, the Carbohydrate Solutions segment's performance during the second quarter is anticipated to remain drab year over year owing to sluggishness in ethanol industry demand and margins. Additionally, weak demand in foodservice, which will also impact the Starches and Sweeteners sub-segment, will contribute to the decline. However, management expects the Carbohydrate Solutions segment to witness a sequential improvement in the second quarter.
- ▼ **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 \$5 million to \$664 million in the first quarter of 2020. Prior to this, SG&A expenses increased \$96 million, \$44 million, \$42 million and \$146 million in the fourth, third, second and first quarters of 2019, respectively.
- ▼ **Risk of Operating in Overseas Markets:** Archer Daniels' financial performance may be adversely affected due to its significant presence in the international market, which exposes it to unfavorable foreign currency translations, economic or political instability, and other governmental actions on trade and repatriation of foreign profits.
- ▼ **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.
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Last Earnings Report

Archer Daniels' Q1 Earnings Beat Estimates, Sales Miss

Archer Daniels reported first-quarter 2020 results, wherein the bottom line beat the Zacks Consensus Estimate while the top line lagged the same. Amid the ongoing COVID-19 crisis, the company remains committed to improving its underperforming categories, drive Readiness and invest primarily in the Nutrition unit.

Adjusted earnings of 64 cents per share rose 39.1% from the year-ago quarter and outpaced the Zacks Consensus Estimate of 53 cents. On a reported basis, the company's earnings were 69 cents per share, up 68.3% from the prior-year quarter.

Revenues declined 2.2% year over year to \$14,970 million and missed the Zacks Consensus Estimate of \$15,341 million. Robust sales growth in the Nutrition segment provided some cushion to the top line.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	-2.42%
EPS Surprise	20.75%
Quarterly EPS	0.64
Annual EPS (TTM)	3.43

Operational Discussion

Segment-wise, revenues for the Nutrition segment rose 28.4% and 14.7% year over year to \$1,471 million and \$104 million, respectively. Meanwhile, revenues for Ag Services & Oilseeds, and Carbohydrate Solutions segments were \$11,079 million and \$2,316 million, reflecting a decline of 4% and 3.6%, respectively.

Moreover, Archer Daniels reported adjusted segment operating profit of \$643 million in first-quarter 2020, up 5.8% from the year-ago quarter. On a GAAP basis, the company's segmental operating profits fell nearly 2% year over year to \$599 million.

Adjusted operating profit at **Ag Services & Oilseeds** improved 1.2% year over year to \$422 million. Operating results gained from solid performance in marketing and structured trade finance, which also favored global trade results. Also, a year-over-year increase in origination volumes and margins was driven by sturdy farmer selling in Brazil. On the flip side, high water conditions and other weaknesses in North America hurt results.

The Crushing business witnessed strong margins and solid volumes, which were lower than the record levels seen last year.

Operating results for Refined Products and Other improved year over year, driven by solid margins in biodiesel and refined oils in North America, somewhat offset by lower biodiesel margins in EMEA. Also, robust peanut shelling results contributed to the growth.

The **Carbohydrate Solutions** segment's adjusted operating profit declined 29.2% to \$68 million owing to a soft performance by Starches and Sweeteners due to adverse market impacts on forward sales of corn oil. However, management expects this to recover by the end of 2020. Excluding these negative impacts, the metric was higher year over year on the back of an improved operating performance at the Decatur complex, solid performance in wheat milling and enhanced conditions in EMEA.

At the **Nutrition** segment, adjusted operating profit of \$142 million surged 75.3% from \$81 million in the year-ago quarter owing to significant gains in Human and Animal Nutrition units. The Human Nutrition division gained from its diversified portfolio, higher sales in North America and EMEA flavors, robust performance in alternative proteins, and additional bioactives income. The Animal Nutrition unit retained growth in the quarter under review, driven by a solid performance from Neovia, strong volumes and margins in feed additives as well as sturdy sales in pet care.

Other Financials

Archer Daniels ended the quarter with cash and cash equivalents of \$4,734 million, long-term debt, including current maturities, of \$9,121 million, and shareholders' equity of \$18,976 million.

During the quarter, the company used \$655 million in cash for operating activities. Additionally, it bought back shares of \$112 million and paid out dividends of \$203 million in the reported quarter. Further, its average trailing four-quarter adjusted return on invested capital (ROIC) was 7.6%.

Recent News

Archer Daniels Declares Dividend – May 6, 2020

Archer Daniels declared quarterly cash dividend of 36 cents per share, which is payable on Jun 10, 2020 to its shareholders of record as of May 20.

Valuation

Archer Daniels shares are down 16.7% in the year-to-date period and nearly up 0.4% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 15.3% and 13.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 4.7% and 7.3%, respectively.

The S&P 500 index is down 5.9% in the year-to-date period but up 8.4% in the past year.

The stock is currently trading at 12.6X forward 12-month earnings, which compares to 14.32X for the Zacks sub-industry, 19.56X for the Zacks sector and 22.02X for the S&P 500 Index.

Over the last five years, the stock has traded as high as 20.25X and as low as 8.81X, with a 5-year median of 14.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 13.25X 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	12.6	14.32	19.56	22.02
	5-Year High	20.25	16.29	22.37	22.02
	5-Year Low	8.81	10.6	16.65	15.23
	5-Year Median	14.36	14.16	19.66	17.49
P/S F12M	Current	0.34	0.38	9.4	3.42
	5-Year High	0.44	0.51	11.16	3.44
	5-Year Low	0.24	0.19	8.1	2.53
	5-Year Median	0.37	0.26	9.89	3.01
EV/EBITDA TTM	Current	6.87	5.29	33.14	11.21
	5-Year High	14.28	10.74	45.11	12.86
	5-Year Low	5.93	4.43	27.18	8.26
	5-Year Median	8.99	6.97	38.37	10.67

As of 05/28/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
BG Foods, Inc. (BGS)	Outperform	1
United Natural Foods, Inc. (UNFI)	Outperform	1
Adecoagro S.A. (AGRO)	Neutral	3
Bunge Limited (BG)	Neutral	5
Corteva, Inc. (CTVA)	Neutral	3
Calavo Growers, Inc. (CVGW)	Neutral	4
Limoneira Co (LMNR)	Neutral	3
Metabolix, Inc. (YTEN)	Neutral	3

Industry Comparison Industry: Agriculture - Operations				Industry Peers		
	ADM	X Industry	S&P 500	AGRO	CVGW	LMNR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	B	D	F
Market Cap	21.66 B	147.36 M	21.49 B	501.13 M	1.08 B	243.04 M
# of Analysts	5	1.5	14	2	2	3
Dividend Yield	3.69%	0.00%	1.98%	0.00%	1.79%	2.20%
Value Score	A	-	-	B	C	F
Cash/Price	0.50	0.11	0.06	0.49	0.00	0.00
EV/EBITDA	6.85	2.39	12.50	2.63	14.65	89.65
PEG Ratio	NA	4.96	2.87	NA	NA	8.51
Price/Book (P/B)	1.15	1.05	2.95	0.56	3.77	1.14
Price/Cash Flow (P/CF)	7.69	4.57	11.81	1.93	16.19	291.43
P/E (F1)	13.32	21.46	21.33	18.61	22.79	127.59
Price/Sales (P/S)	0.34	1.12	2.28	0.59	0.89	1.42
Earnings Yield	7.46%	3.85%	4.50%	5.37%	4.38%	0.81%
Debt/Equity	0.45	0.35	0.76	1.01	0.24	0.59
Cash Flow (\$/share)	5.07	0.10	6.96	2.22	3.79	0.05
Growth Score	B	-	-	A	F	F
Hist. EPS Growth (3-5 yrs)	6.68%	18.70%	10.87%	85.76%	12.83%	54.90%
Proj. EPS Growth (F1/F0)	-10.31%	10.36%	-10.48%	-32.35%	-10.76%	123.70%
Curr. Cash Flow Growth	-3.42%	15.16%	5.39%	5.84%	17.65%	-94.50%
Hist. Cash Flow Growth (3-5 yrs)	-1.15%	6.89%	8.55%	13.14%	15.90%	-40.15%
Current Ratio	1.51	1.60	1.29	1.57	1.28	1.41
Debt/Capital	31.40%	27.35%	44.54%	50.16%	19.09%	36.15%
Net Margin	2.39%	-5.91%	10.59%	-6.17%	2.58%	-4.49%
Return on Equity	10.15%	2.61%	16.26%	7.15%	14.26%	-4.97%
Sales/Assets	1.46	0.43	0.55	0.35	2.88	0.43
Proj. Sales Growth (F1/F0)	-1.84%	0.00%	-2.53%	-0.38%	10.56%	3.05%
Momentum Score	C	-	-	F	A	C
Daily Price Chg	0.00%	0.00%	-0.65%	1.18%	-0.63%	1.11%
1 Week Price Chg	3.69%	2.36%	4.99%	12.95%	3.62%	5.22%
4 Week Price Chg	5.01%	3.37%	4.28%	7.27%	5.90%	1.95%
12 Week Price Chg	1.75%	-3.78%	-3.05%	-39.21%	-1.73%	-20.04%
52 Week Price Chg	1.40%	-27.14%	0.01%	-36.40%	-31.79%	-27.34%
20 Day Average Volume	2,724,306	65,709	2,425,602	423,492	150,614	77,911
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.56%	-1.02%	-1.70%	-25.81%	0.00%	0.00%
(F1) EPS Est 12 week change	-12.15%	-12.15%	-16.00%	-62.09%	-22.33%	-70.91%
(Q1) EPS Est Mthly Chg	-34.00%	-9.09%	-3.25%	NA	0.00%	0.00%

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	A
Growth Score	B
Momentum Score	C
VGM Score	A

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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