

Caseys General Stores (CASY)

\$168.01 (As of 01/10/20)

Price Target (6-12 Months): **\$178.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: F

Summary

Shares of Casey's have underperformed the industry in the past three months. Despite earnings beat streak in second-quarter fiscal 2020, the top line missed the Zacks Consensus Estimate after a beat in the preceding two quarters, and fell year over year. Also, the company trimmed its fiscal 2020 same-store sales projection for fuel and prepared food & fountain categories. Nonetheless, the bottom line grew yet again on a year-over-year basis. Management highlighted that sturdy growth in fuel gross profit dollars, new store openings and continuous focus on improving operating efficiencies contributed to results. Notably, the company is on track with its Value Creation Plan, comprising new fleet card program, price and product optimization and digital engagements.

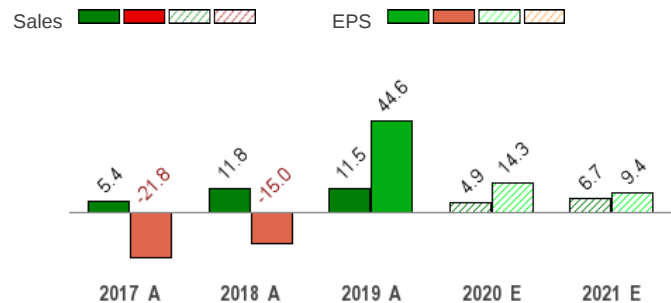
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$178.89 - \$122.86
20 Day Average Volume (sh)	295,088
Market Cap	\$6.2 B
YTD Price Change	5.7%
Beta	0.50
Dividend / Div Yld	\$1.28 / 0.8%
Industry	Retail - Convenience Stores
Zacks Industry Rank	Top 8% (21 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.2%
Last Sales Surprise	-2.3%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	NA
Earnings ESP	7.1%
P/E TTM	26.5
P/E F1	26.7
PEG F1	2.9
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,770 E	2,682 E	2,474 E	2,499 E	10,471 E
2020	2,627 A	2,488 A	2,309 E	2,349 E	9,815 E
2019	2,588 A	2,538 A	2,048 A	2,178 A	9,353 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.52 E	\$2.48 E	\$1.06 E	\$0.88 E	\$6.89 E
2020	\$2.31 A	\$2.21 A	\$0.93 E	\$0.86 E	\$6.30 E
2019	\$1.90 A	\$1.80 A	\$1.13 A	\$0.68 A	\$5.51 A

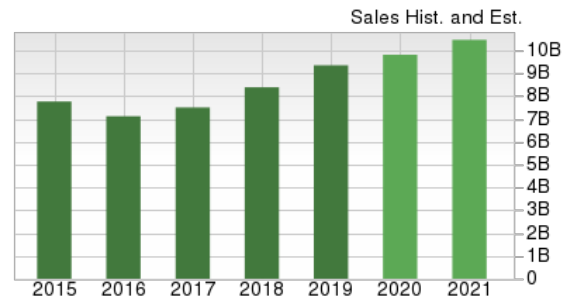
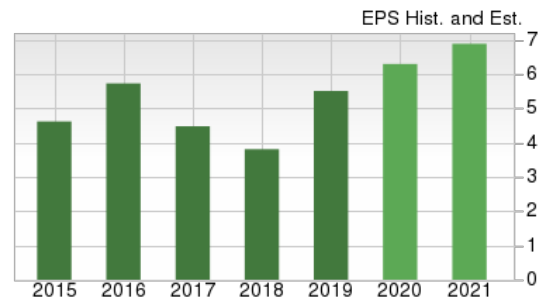
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

Overview

Founded in 1959 and based in Ankeny, IA, Casey's General Stores, Inc. operates convenience stores under the Casey's and Casey's General Store names in 16 Midwestern states, mainly Iowa, Missouri and Illinois. The company's stores offer a variety of food selection (including freshly prepared foods such as pizza, donuts and sandwiches), beverages, tobacco products, health and beauty aids, automotive products and other non-food items. Its stores also offer fuel for sale on a self-service basis.

The company, which operates more than 2,000 stores, primarily derives revenues under three categories — Fuel (63% of FY19 total revenue), Grocery and Other Merchandise (25% of FY19 total revenue) and Prepared Food and Fountain (11% of FY19 total revenue). Other category accounts for 1% of total revenues.



Reasons To Buy:

▲ **Impressive Bottom-Line Performance:** Casey's positive earnings surprise streak continued for the sixth straight quarter. Notably, the bottom line improved again on a year-over-year basis in second-quarter fiscal 2020. Management highlighted that sturdy growth in fuel gross profit dollars, new store openings and continuous focus on improving operating efficiencies contributed to results. The company reported quarterly earnings of \$2.21 per share that surpassed the Zacks Consensus Estimate of \$2.10 and improved 22.8% from \$1.80 posted in the year-ago period. During the quarter, in the fuel category, the company witnessed a favorable fuel margin environment. The company's price optimization efforts have a positive effect on fuel margin gains. The company plans to integrate all its stores with the PriceAdvantage tool.

Casey's remains on track with its value creation plan to improve sales and profitability. This includes new fleet card program, price and product optimization, and loyalty program.

▲ **Value Creation Plan:** Casey's remains on track with its value creation plan to improve sales and profitability. This includes new fleet card program, price and product optimization, loyalty program, digital engagements comprising mobile app and online ordering capabilities, cost containment efforts as well as capital reallocation plan. Management is also focusing on improving distribution efficiency. Casey's had earlier highlighted that cost-reduction initiatives are likely to result in savings of approximately \$200 million in store-level operating expenditures by fiscal 2021. As a part of the fuel product optimization plan the company has converted 592 stores to biodiesel and 144 stores to premium or diesel. The company launched the new Caseys.com e-commerce website, rolled out new mobile app, initiated fuel price optimization platform across all outlets and will soon launch loyalty program at the start of the new calendar year. During the second quarter of fiscal 2020, the company added more than 3,000 new cardholders. To date, the company now has 2,500 accounts and 15,500 cardholders.

▲ **Efforts to Yield Results:** Management highlighted that Casey's fleet card program, which involves managing and monitoring of initial sales, back-end system processing, billing and other consumer-oriented services, is likely to lift fuel sales. Moreover, the program is anticipated to be accretive to fuel and in-store sales. FLEETCOR Technologies is handling the company's fleet card program. The company's digitalization efforts will help create a seamless shopping experience online as well as in-store and facilitate same-store sales growth. Further, the company's price and product optimization strategy will help augment sales and fuel margin. During the second quarter of fiscal 2020, fuel margin of 22.9 cents per gallon increased 14.5% year over year. Total gallons sold were up 3.4% to 614.1 million gallons. Management now envisions fiscal 2020 fuel margin in the range of 21-23 cents per gallon compared with 20.3 cents reported in fiscal 2019. Casey's had earlier forecast fuel margin in the band of 20.5-22.5 cents per gallon for fiscal 2020.

▲ **Shareholder Friendly Moves:** During the first quarter of fiscal 2019, the company completed the initial \$300 million share repurchase program, which was approved in March 2017. In March 2018, its Board of Directors announced a new \$300 million share buyback program through fiscal year 2020. There were no repurchases made under this new authorization during the first, second, third and fourth quarters of fiscal 2019 or in the first and second quarters of fiscal 2020. Nonetheless, the company raised dividend payout to 32 cents from 29 cents a share in June 2019. The company has been raising dividend since the past 19 consecutive years.

▲ **Store Update:** During fiscal 2018, the company opened 85 new outlets, acquired 26 stores, completed 30 replacements, and remodeled 74 stores. In fiscal 2019, the company constructed 56 new stores and acquired 24. The company closed 10 stores. The company replaced eight stores and has eight acquisition stores under agreement to purchase. During the six months ended on Oct 31, the company constructed 36 new stores and acquired five. The company closed nine stores. As of Oct 31, the company operated 2,181 stores. The company plans to construct 60 stores and acquire 25 in fiscal 2020. Through the second quarter, the company has opened 36 new stores, acquired five stores and has 12 additional stores under agreement to purchase. The company has 97 sites in pipeline, including 31 under construction as of October 31, 2019.

Reasons To Sell:

- ▼ **Dismal Stock Performance:** Although shares of Casey's have gained 4.1% in the past three months, it has underperformed the industry's growth of 4.8%. Despite positive earnings surprise streak in the second quarter of fiscal 2020, the top line fell short of the Zacks Consensus Estimate after a beat in the preceding two quarters, and declined year over year. Total revenues came in at \$2,487.6 million, down 2% year over year and missed the Zacks Consensus Estimate of \$2,546 million. We note revenues at Fuel category declined year over year. Again, the company trimmed its fiscal 2020 same-store sales projection for fuel and prepared food & fountain categories. Management now envisions fiscal 2020 fuel gallons same-store sales to be down 1% to up 0.5% and prepared food and fountain same-store sales to increase in the band of 1.5-4%. Casey's had earlier forecast fuel gallons same-store to be down 0.5% to up 1% and prepared food and fountain same-store sales growth of 3-6% for fiscal 2020.
- ▼ **Soft Fuel Gallons Same-Store Sales:** We note that Fuel sales decreased 6.6% to \$1,514.5 million during the second quarter of fiscal 2020. Fuel gallons same-store sales decreased 1.8% compared with 1.1% decline witnessed in the year-ago quarter. This follows a decline of 2%, 2.8% and 3.4% witnessed in the preceding three quarters. Management now envisions fiscal 2020 fuel gallons same-store sales to be down 1% to up 0.5% compared with decline of 1.7% witnessed in fiscal 2019. Casey's had earlier forecast fuel gallons same-store to be down 0.5% to up 1% fiscal 2020.
- ▼ **Rise in Operating Expenses May Hurt Margins:** We note that higher operating expenses may be a threat to margin and the bottom line. Operating expenses rose 8.5% during the second quarter of fiscal 2020. This follows an increase of 5.7 and 9.6% during the preceding two quarters. The year-over-year increase can be attributed to 84 more stores from the prior-year period. The company continues to anticipate operating expenses to increase in the band of 7-9% during fiscal 2020. Same-store operating expenses grew 2.6% during the quarter. Year-to-date, operating expenses were up 7.1%, which comprises the impact of senior leadership transition costs. For the fiscal year, management expects these costs to have an adverse impact of approximately \$6 million or 12 cents on earnings per share.
- ▼ **Fuel & Tobacco Products Related Headwinds:** Fuel sales are a significant part of Casey's overall revenues. However, any disruption in the supply of fuel or rise in fuel costs or any other volatility in the wholesale fuel market or price competition may adversely impact its retail fuel profit margins. Quite apparent, these headwinds will have a direct impact on the company's fuel gallon volume, fuel gross profit, and overall customer traffic at its outlets. Similar to fuel, tobacco products form a major part of the grocery and other merchandise category. Increase in the price of the same to offset rise in taxes or stricter government regulation on them or people quitting smoking for health reasons could impact the company's overall sales.
- ▼ **Stiff Competition May Hurt Market Share:** Casey's operate in a highly competitive convenience store and retail fuel industries. The company faces stiff competition from other convenience store chains, gasoline stations, supermarkets, drugstores, discount stores, club stores, fast food outlets, and a variety of other retail companies in terms of price, resource, store expansion, brand name recognition and promotional activities. This may dent the company's sales and margins.
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We note that higher operating expenses may be a threat to margin and the bottom line. The company continues to expect operating expenses to increase in the range of 7-9% during fiscal 2020.

Last Earnings Report

Casey's Earnings Beat Estimates in Q2, Improve Y/Y

Casey's General Stores, Inc.'s positive earnings surprise streak continued for the sixth straight quarter. Notably, the bottom line improved again on a year-over-year basis in second-quarter fiscal 2020. Management highlighted that sturdy growth in fuel gross profit dollars, new store openings and continuous focus on improving operating efficiencies contributed to results.

However, the top line fell short of the Zacks Consensus Estimate after a beat in the preceding two quarters, and declined year over year. This Iowa-based company also trimmed fiscal 2020 same-store sales projection for fuel and prepared food & fountain categories.

Quarter Ending **10/2019**

Report Date	Dec 09, 2019
Sales Surprise	-2.29%
EPS Surprise	5.24%
Quarterly EPS	2.21
Annual EPS (TTM)	6.33

A Closer Look at Q2 Results

Casey's reported quarterly earnings of \$2.21 per share that surpassed the Zacks Consensus Estimate of \$2.10 and improved 22.8% from \$1.80 posted in the year-ago period.

Total revenues came in at \$2,487.6 million, down 2% year over year and missed the Zacks Consensus Estimate of \$2,546 million. Although revenues at Fuel category declined, Grocery & Other Merchandise and Prepared Food & Fountain categories witnessed growth.

Gross profit came in at \$557.1 million, up 9.2% year over year, while gross margin expanded 230 bps to 22.4%.

Casey's witnessed a decline in cost of goods sold (down 4.8%) but an increase in operating expenses (up 8.5%) during the reported quarter. Operating expenses expanded primarily due to operation of 84 more stores from the prior-year period. The company continues to anticipate operating expenses to increase in the band of 7-9% during fiscal 2020.

Performance by Categories

We note that Fuel sales decreased 6.6% to \$1,514.5 million. Fuel gallons same-store sales decreased 1.8% compared with 1.1% decline witnessed in the year-ago quarter. Fuel margin of 22.9 cents per gallon increased 14.5% year over year. Total gallons sold were up 3.4% to 614.1 million gallons.

Management now envisions fiscal 2020 fuel gallons same-store sales to be down 1% to up 0.5% compared with decline of 1.7% witnessed in fiscal 2019. It now expects fuel margin in the range of 21-23 cents per gallon compared with 20.3 cents reported in fiscal 2019. Casey's had earlier forecast fuel gallons same-store to be down 0.5% to up 1% and fuel margin in the band of 20.5-22.5 cents per gallon for fiscal 2020.

Grocery & Other Merchandise sales rose 6.8% to \$660.6 million, while same-store sales rose 3.2% compared with 2.7% growth registered in the year-ago quarter. Grocery & Other Merchandise margin expanded 90 basis points to 33.3%. Casey's reaffirmed same-store sales growth forecast of 2.5-4% with margin expected between 32% and 33% for fiscal 2020. Notably, the company had reported same-store sales increase of 3.6% and margin expansion of 30 basis points to 32.1% in fiscal 2019.

Prepared Food & Fountain sales jumped 5.2% to \$297.8 million. In spite of a highly competitive food service environment, same-store sales increased 1.9% compared with 2.2% growth registered in the year-ago quarter. Further, Prepared Food & Fountain margin shrunk 150 basis points to 60.9%. Higher commodity costs compared with year-ago period adversely impacted the margin.

Management now projects prepared food and fountain same-store sales to increase in the band of 1.5-4% with margin between 61% and 63% for fiscal 2020. Notably, the company had reported same-store sales increase of 1.9% and margin expansion of 120 basis points to 62.2% in fiscal 2019. Casey's had earlier forecast same-store growth of 3-6% for fiscal 2020.

Store Update

During the six months ended on Oct 31, the company constructed 36 new stores and acquired five. The company closed nine stores. As of Oct 31, the company operated 2,181 stores. The company plans to construct 60 stores and acquire 25 in fiscal 2020.

Other Financial Aspects

Casey's ended the reported quarter with cash and cash equivalents of \$44 million, long-term debt (net of current maturities) of \$715.1 million and shareholders' equity of \$1,561.8 million. During the quarter, the company did not make any share repurchases and still has \$300 million under authorization.

The company generated cash flow from operations of \$312 million during the first six-month of fiscal 2020 quarter and incurred capital expenditure of \$248.7 million. Management plans to incur capital expenditures of \$516 million during fiscal 2020.

Recent News

Casey's Launches New Brand Platform – October 22, 2019

Casey's in partnership with Schafer Condon Carter, new marketing agency of record launched, new brand platform – "Here for Good".

Valuation

Casey's shares are up 28.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 26.7% and 21.1%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 25.03X forward 12-month earnings, which compares to 25.23X for the Zacks sub-industry, 25.52X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.63X and as low as 18.23X, with a 5-year median of 22.67X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$178 price target reflects 26.52X forward 12-month earnings.

The table below shows summary valuation data for CASY

Valuation Multiples - CASY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.03	25.23	25.52	18.88
	5-Year High	28.63	31.72	26.23	19.34
	5-Year Low	18.23	17.42	19.07	15.17
	5-Year Median	22.67	23.94	22.95	17.44
P/S F12M	Current	0.6	0.48	1.08	3.5
	5-Year High	0.68	0.51	1.11	3.5
	5-Year Low	0.37	0.28	0.8	2.54
	5-Year Median	0.51	0.4	0.91	3
EV/EBITDA TTM	Current	12.29	11.75	15.47	12.12
	5-Year High	18.81	16.83	15.47	12.86
	5-Year Low	8.31	8.02	10.32	8.48
	5-Year Median	10.41	9.45	12.38	10.67

As of 01/10/2019

Industry Analysis Zacks Industry Rank: Top 8% (21 out of 254)



Top Peers

Target Corporation (TGT)	Outperform
Burlington Stores, Inc. (BURL)	Neutral
Companhia Brasileira de Distribuicao (CBD)	Neutral
Dollar General Corporation (DG)	Neutral
The Kroger Co. (KR)	Neutral
TravelCenters of America LLC (TA)	Neutral
Walmart Inc. (WMT)	Neutral
Dollar Tree, Inc. (DLTR)	Underperform

Industry Comparison Industry: Retail - Convenience Stores				Industry Peers		
	CASY Neutral	X Industry	S&P 500	BURL Neutral	DG Neutral	TA Neutral
VGM Score	A	-	-	A	A	A
Market Cap	6.18 B	3.16 B	24.03 B	15.33 B	39.01 B	131.71 M
# of Analysts	6	3	13	9	23	1
Dividend Yield	0.76%	0.00%	1.78%	0.00%	0.84%	0.00%
Value Score	B	-	-	C	C	A
Cash/Price	0.01	0.13	0.04	0.01	0.01	0.25
EV/EBITDA	12.16	16.72	14.04	23.52	19.14	21.29
PEG Ratio	2.97	2.93	2.02	2.02	2.01	NA
Price/Book (P/B)	3.96	2.11	3.32	39.14	5.87	0.25
Price/Cash Flow (P/CF)	13.73	7.98	13.52	23.55	19.71	2.24
P/E (F1)	27.01	35.96	18.82	31.53	23.03	45.25
Price/Sales (P/S)	0.66	0.34	2.63	2.17	1.43	0.02
Earnings Yield	3.75%	2.98%	5.31%	3.17%	4.34%	2.21%
Debt/Equity	0.46	2.30	0.72	8.28	1.57	4.15
Cash Flow (\$/share)	12.24	9.76	6.94	9.82	7.77	7.28
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	0.83%	0.83%	10.56%	34.96%	13.32%	NA
Proj. EPS Growth (F1/F0)	14.31%	68.07%	7.49%	13.91%	11.43%	114.81%
Curr. Cash Flow Growth	22.43%	-1.29%	14.83%	29.71%	25.19%	-25.01%
Hist. Cash Flow Growth (3-5 yrs)	11.03%	3.83%	9.00%	22.30%	8.34%	-3.37%
Current Ratio	0.36	0.63	1.23	0.88	1.12	0.89
Debt/Capital	31.41%	55.99%	42.99%	89.22%	61.12%	80.58%
Net Margin	2.51%	1.13%	11.08%	6.26%	6.09%	-0.26%
Return on Equity	16.06%	6.23%	17.16%	145.12%	25.53%	-3.60%
Sales/Assets	2.49	2.34	0.55	1.51	1.38	2.20
Proj. Sales Growth (F1/F0)	4.94%	4.52%	4.20%	9.30%	8.27%	4.10%
Momentum Score	F	-	-	B	A	C
Daily Price Chg	2.31%	0.00%	-0.33%	-0.72%	0.42%	-0.61%
1 Week Price Chg	2.20%	0.00%	-0.30%	1.12%	-0.80%	-8.29%
4 Week Price Chg	9.08%	4.54%	1.71%	2.55%	-1.52%	80.00%
12 Week Price Chg	2.65%	-8.68%	6.05%	14.21%	-5.92%	56.48%
52 Week Price Chg	28.94%	-25.94%	22.39%	40.80%	31.50%	-18.55%
20 Day Average Volume	295,088	87,841	1,580,816	505,976	1,739,491	175,132
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.83%	84.20%	0.00%	0.00%	0.13%	169.23%
(F1) EPS Est 12 week change	-0.07%	-17.31%	-0.50%	1.57%	0.64%	-34.55%
(Q1) EPS Est Mthly Chg	-3.11%	5.17%	0.00%	0.00%	-0.23%	13.45%

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	A
Momentum Score	F
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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