

Caseys General Stores (CASY)

\$137.16 (As of 03/24/20)

Price Target (6-12 Months): **\$144.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Shares of Casey's have slid in the past three months, in spite of positive earnings surprise streak. Third-quarter fiscal 2020 marked the seventh straight beat. However, the top line missed the Zacks Consensus Estimate for the second quarter in row, while the bottom line fell on a year-over-year basis due to lower fuel margin and higher operating expenses. Also, fuel gallons same-store sales remain soft. Management highlighted that an unfavorable pricing environment resulted in lower growth in fuel gross profit dollars. Nevertheless, it remains optimistic about the reward program and retained fiscal 2020 same-store sales view. Notably, the company is on track with its Value Creation Plan. This includes new fleet card program, price and product optimization, digital engagements, cost containment efforts as well as capital reallocation plan.

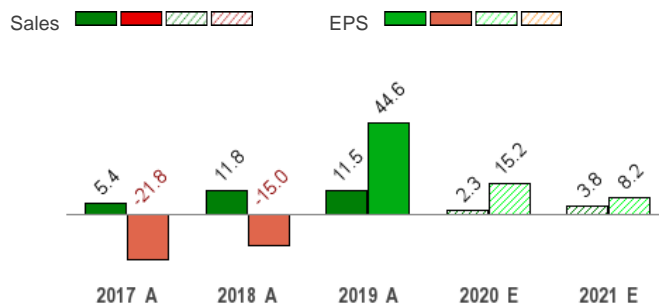
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$181.99 - \$114.01
20 Day Average Volume (sh)	592,414
Market Cap	\$5.0 B
YTD Price Change	-13.7%
Beta	0.50
Dividend / Div Yld	\$1.28 / 0.9%
Industry	Retail - Convenience Stores
Zacks Industry Rank	Top 2% (4 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	06/08/2020
Earnings ESP	3.1%
P/E TTM	22.5
P/E F1	21.6
PEG F1	2.4
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,525 E	2,507 E	2,328 E	2,396 E	9,934 E
2020	2,627 A	2,488 A	2,248 A	2,185 E	9,566 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	\$2.48 E	\$2.39 E	\$1.05 E	\$0.94 E	\$6.87 E
2020	\$2.31 A	\$2.21 A	\$0.91 A	\$0.94 E	\$6.35 E
2019	\$1.90 A	\$1.80 A	\$1.13 A	\$0.68 A	\$5.51 A

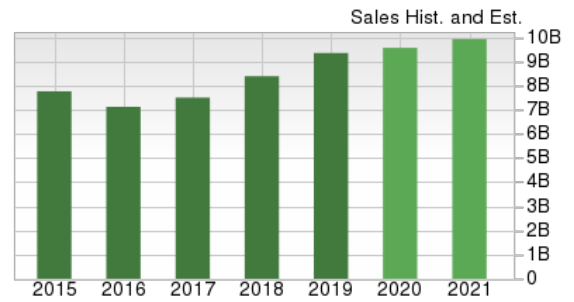
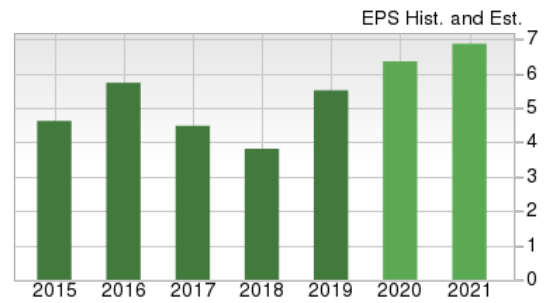
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/24/2020. The reports text is as of 03/25/2020.

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:

▲ **Positive Highlights of Q3:** Casey's positive earnings surprise streak continued for the seventh straight quarter during the third quarter of fiscal 2020. Also, the top line increased from the year-ago period. Notably, the company's quarterly earnings of 91 cents a share surpassed the Zacks Consensus Estimate of 87 cents. Total revenues of \$2,248.2 million rose 9.8% year over year. We note that revenues at Fuel, Grocery & Other Merchandise and Prepared Food & Fountain categories witnessed growth. Fuel sales increased 11.5% to \$1,376 million, while Grocery & Other Merchandise sales rose 7.1% to \$582.4 million. Again, Prepared Food & Fountain sales jumped 6.8% to \$273.6 million.

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. The company had launched the new Caseys.com e-commerce website, rolled out new mobile app, initiated fuel price optimization platform across all outlets. Further, the company remains optimistic about the Casey's Rewards program, wherein customers can gain points from everyday purchases and redeem the same for fuel discounts, Casey's Cash or donate to a local school. As March 10, the company has 3,100 accounts and 20,000 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 third quarter of fiscal 2020, Fuel sales increased 11.5% to \$1,376 million. Total gallons sold during the quarter rose 3.3% to 573 million gallons due to the strong contribution from new stores opened in the last 12 months. Management envisions fiscal 2020 fuel margin in the range of 21-23 cents per gallon compared with 20.3 cents reported in fiscal 2019.

▲ **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 nine months ended on Jan 31, 2020, the company constructed 50 new stores and acquired 10. The company closed 12 stores. As of Jan 31, the company operated 2,193 stores. It plans to construct 60 stores and acquire 20 in fiscal 2020. The Company has 11 acquisition stores under agreement to purchase and a new store pipeline of 88 sites, including 15 under construction as of January 31, 2020.

Reasons To Sell:

▼ **Dismal Stock Performance:** Shares of Casey's have plunged 13.5% compared with industry's decline of 14.4% in the past three months. In spite of the company's positive earnings surprise streak the stock came under pressure. We note that the company's top line fell short of the Zacks Consensus Estimate for the second quarter in row, while the bottom line declined on a year-over-year basis on account of lower fuel margin and higher operating expenses. Fuel margin of 21.7 cents per gallon fell 1.8% year over year. Management highlighted that an unfavorable pricing environment compared with the year-ago period resulted in lower growth in fuel gross profit dollars.

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.

▼ **Soft Fuel Gallons Same-Store Sales:** We note that during the third quarter of fiscal 2020 Fuel gallons same-store sales decreased 2% compared with 3.4% decline witnessed in the year-ago quarter. This follows a decline of 1.8%, 2%, 2.8% and 3.4% witnessed in the preceding four quarters. Management envisions fiscal 2020 fuel gallons same-store sales decline of 1% to up 0.5% compared with decline of 1.7% witnessed in fiscal 2019.

▼ **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 10.5% during the third quarter of fiscal 2020. This follows an increase of 8.5%, 5.7% and 9.6% during the preceding three quarters. The year-over-year increase can be attributed to 70 more stores from the prior-year period, technology costs associated to digital systems and rise in credit card fees. The company continues to anticipate operating expenses to increase in the band of 7-9% during fiscal 2020. Same-store operating expenses excluding credit card fees were up 5.4% for the quarter.

▼ **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.

Last Earnings Report

Casey's Q3 Earnings Surpass Estimates, Decline Y/Y

Casey's General Stores, Inc.'s third-quarter fiscal 2020 marked the seventh straight quarter of a positive earnings surprise. However, the bottom line declined on a year-over-year basis. The top line fell short of the Zacks Consensus Estimate for the second quarter in row but increased from a year ago. Notably, this IA-based company retained fiscal 2020 same-store sales projection for Fuel, Grocery and Other Merchandise, and Prepared Food & Fountain categories.

Management highlighted that an unfavorable pricing environment compared with the year-ago period resulted in lower growth in fuel gross profit dollars. Nevertheless, it is optimistic about the January launch of the Casey's Rewards program.

Quarter Ending 01/2020

Report Date	Mar 09, 2020
Sales Surprise	-1.82%
EPS Surprise	4.60%
Quarterly EPS	0.91
Annual EPS (TTM)	6.11

A Closer Look at Q3 Results

Casey's reported quarterly earnings of 91 cents a share that surpassed the Zacks Consensus Estimate of 87 cents but declined 19.5% from \$1.13 in the year-ago period on account of lower fuel margin and higher operating expenses.

Total revenues of \$2,248.2 million rose 9.8% year over year but missed the Zacks Consensus Estimate of \$2,290 million. We note that revenues at Fuel, Grocery & Other Merchandise and Prepared Food & Fountain categories witnessed growth.

Gross profit came in at \$496.9 million, up 5.7% year over year, while gross margin contracted 90 bps to 22.1%.

Casey's witnessed an increase of 11% in cost of goods sold and a rise of 10.5% in operating expenses during the reported quarter. Increase in operating expenses can be attributed to operating 70 more stores in the quarter under review, technology costs associated to digital systems and rise in credit card fees. The company continues to expect an increase in the band of 7-9% in operating expenses during fiscal 2020.

Performance by Categories

We note that Fuel sales increased 11.5% to \$1,376 million. Fuel gallons same-store sales declined 2% compared with a 3.4% decline in the year-ago quarter. Fuel margin of 21.7 cents per gallon fell 1.8% year over year.

Management envisions fiscal 2020 fuel gallons same-store sales decline of 1% to up 0.5% compared with decline of 1.7% witnessed in fiscal 2019. It expects fuel margin in the range of 21-23 cents per gallon compared with 20.3 cents reported in fiscal 2019.

Grocery & Other Merchandise sales rose 7.1% to \$582.4 million, while same-store sales rose 3.5% compared with 3.4% growth registered in the year-ago quarter. Grocery & Other Merchandise margin expanded 100 basis points (bps) to 32.9%. Casey's reaffirmed same-store sales growth forecast at 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 bps to 32.1% in fiscal 2019.

Prepared Food & Fountain sales jumped 6.8% to \$273.6 million. In spite of a competitive food service environment, same-store sales increased 2.8% compared with 1.5% growth registered in the year-ago quarter. Further, Prepared Food & Fountain margin shrunk 210 bps to 60.2%. Higher commodity costs compared with the year-ago period and increased promotional activity affected margins.

Management projects prepared food and fountain same-store sales increase 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 bps to 62.2% in fiscal 2019.

Store Update

During the nine months ended on Jan 31, 2020, the company constructed 50 new stores and acquired 10. The company closed 12 stores. As of Jan 31, the company operated 2,193 stores. It plans to construct 60 stores and acquire 20 in fiscal 2020.

Other Financial Aspects

Casey's ended the reported quarter with cash and cash equivalents of \$43.5 million, long-term debt (net of current maturities) of \$715.1 million and shareholders' equity of \$1,588.6 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 \$399.7 million during the first nine months of fiscal 2020 and incurred capital expenditure of \$376.5 million. Management plans to incur capital expenditures of \$516 million during fiscal 2020.

Recent News

Casey's Launch New Loyalty Program - Jan 7, 2020

Casey's launched its first loyalty program namely - Casey's Rewards, wherein customers can now earn points from their purchases. Points can also be redeemed for fuel discounts, Casey's Cash or donate to a local school.

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 down 13.7% in the year-to-date period but up 8.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 14.5% and 13.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 6.5% and 5.6%, respectively.

The S&P 500 index is down 23.9% in the year-to-date period and 13.6% in the past year.

The stock is currently trading at 20.12X forward 12-month earnings, which compares to 19.45X for the Zacks sub-industry, 22.01X for the Zacks sector and 14.72X for the S&P 500 index.

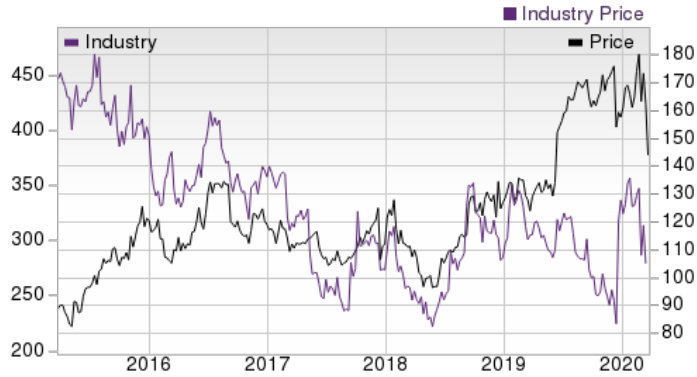
Over the past five years, the stock has traded as high as 28.63X and as low as 18.23X, with a 5-year median of 22.88X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$144 price target reflects 21.12X forward 12-month earnings.

The table below shows summary valuation data for CASY

Valuation Multiples - CASY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.12	19.45	22.01	14.72
	5-Year High	28.63	31.72	26.19	19.34
	5-Year Low	18.23	17.42	19.06	14.72
	5-Year Median	22.88	24.03	23	17.42
P/S F12M	Current	0.51	0.41	0.88	2.65
	5-Year High	0.68	0.51	1.11	3.43
	5-Year Low	0.37	0.28	0.8	2.54
	5-Year Median	0.51	0.41	0.92	3
EV/EBITDA TTM	Current	10.58	9.78	13.41	9.07
	5-Year High	18.88	17.01	16.22	12.88
	5-Year Low	8.26	7.9	10.83	8.27
	5-Year Median	10.45	9.46	12.51	10.78

As of 03/24/2020

Industry Analysis Zacks Industry Rank: Top 2% (4 out of 254)



Top Peers

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

Industry Comparison Industry: Retail - Convenience Stores				Industry Peers		
	CASY Neutral	X Industry	S&P 500	TA Outperform	TGT Neutral	WMT Neutral
VGM Score	A	-	-	C	A	B
Market Cap	5.05 B	2.56 B	17.21 B	74.43 M	50.38 B	325.80 B
# of Analysts	7	3	13	1	12	13
Dividend Yield	0.93%	0.00%	2.52%	0.00%	2.63%	1.88%
Value Score	B	-	-	C	B	C
Cash/Price	0.01	0.14	0.07	0.27	0.05	0.03
EV/EBITDA	10.15	11.88	10.28	13.62	8.45	11.29
PEG Ratio	2.37	2.37	1.56	NA	1.86	4.55
Price/Book (P/B)	3.18	1.66	2.27	0.13	4.31	4.00
Price/Cash Flow (P/CF)	11.21	6.05	9.16	0.89	8.64	12.99
P/E (F1)	21.60	14.29	13.51	7.00	14.70	22.46
Price/Sales (P/S)	0.53	0.27	1.74	0.01	0.64	0.62
Earnings Yield	4.63%	9.46%	7.33%	14.29%	6.80%	4.45%
Debt/Equity	0.45	2.15	0.70	3.86	1.15	0.79
Cash Flow (\$/share)	12.24	11.16	7.01	10.07	11.64	8.85
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	1.13%	1.13%	10.85%	NA	7.09%	0.99%
Proj. EPS Growth (F1/F0)	15.32%	87.48%	3.92%	155.17%	7.03%	3.87%
Curr. Cash Flow Growth	22.43%	31.51%	5.93%	40.59%	10.26%	-0.12%
Hist. Cash Flow Growth (3-5 yrs)	11.03%	1.30%	8.55%	-8.44%	3.95%	-0.31%
Current Ratio	0.35	0.72	1.23	1.08	0.89	0.79
Debt/Capital	31.04%	55.23%	42.57%	79.42%	53.50%	44.04%
Net Margin	2.38%	1.47%	11.64%	0.55%	4.20%	2.84%
Return on Equity	15.01%	5.76%	16.74%	-3.50%	28.46%	18.16%
Sales/Assets	2.49	2.19	0.54	1.89	1.85	2.22
Proj. Sales Growth (F1/F0)	2.28%	-4.14%	2.57%	-10.56%	3.50%	3.02%
Momentum Score	A	-	-	A	B	A
Daily Price Chg	11.50%	5.75%	11.24%	24.27%	4.00%	0.66%
1 Week Price Chg	-11.31%	-5.66%	-16.96%	-34.26%	-3.58%	-0.11%
4 Week Price Chg	-22.61%	-27.97%	-26.70%	-33.33%	-9.99%	0.56%
12 Week Price Chg	-13.73%	-19.37%	-30.27%	-47.76%	-21.57%	-3.21%
52 Week Price Chg	9.00%	9.00%	-21.88%	-57.33%	26.28%	17.00%
20 Day Average Volume	592,414	59,292	4,249,353	117,833	7,710,535	14,243,322
(F1) EPS Est 1 week change	0.00%	0.00%	-0.11%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.32%	128.44%	-1.58%	255.56%	0.01%	0.09%
(F1) EPS Est 12 week change	-0.36%	127.60%	-2.61%	255.56%	-0.38%	-1.84%
(Q1) EPS Est Mthly Chg	9.58%	31.82%	-1.24%	54.05%	-0.27%	0.00%

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	B
Momentum Score	A
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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