

Hormel Foods(HRL)

\$47.99 (As of 07/06/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: B

Summary

Hormel Foods' shares have outpaced the industry year to date. The company's sales beat the consensus estimate and grew year over year in second-quarter fiscal 2020. Also, organic sales rose 6% in the quarter. The uptick can be attributed to higher retail sales in all segments, thanks to rising demand amid coronavirus-led pantry loading and stay-at home trends. Apart from these, strength in the company's brands along with focus on innovations is yielding. Moreover, Hormel Foods' has been benefiting from its lucrative buyouts. However, higher SG&A expenses along with escalated supply-chain costs stemming from COVID-19 woes put pressure on earnings in second-quarter. The metric lagged the consensus mark and fell nearly 9%. Also, higher pork prices along with weakness in Refrigerated Foods segment were headwinds.

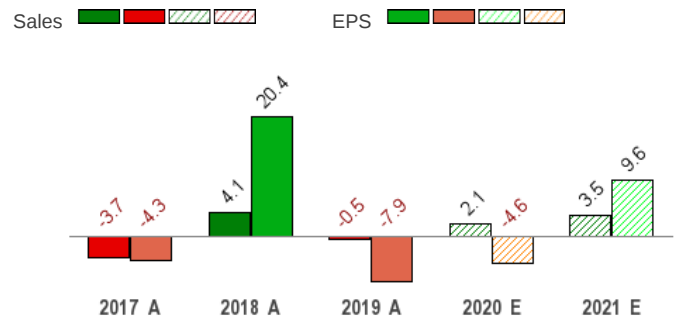
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.53 - \$39.01
20 Day Average Volume (sh)	1,935,303
Market Cap	\$25.9 B
YTD Price Change	6.4%
Beta	-0.06
Dividend / Div Yld	\$0.93 / 1.9%
Industry	Food - Meat Products
Zacks Industry Rank	Bottom 29% (179 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.6%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/27/2020
Earnings ESP	0.0%
P/E TTM	28.1
P/E F1	29.1
PEG F1	4.6
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,423 E	2,364 E	2,497 E	2,711 E	10,035 E
2020	2,384 A	2,422 A	2,313 E	2,579 E	9,699 E
2019	2,360 A	2,345 A	2,291 A	2,502 A	9,497 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.41 E	\$0.50 E	\$0.47 E	\$0.57 E	\$1.82 E
2020	\$0.45 A	\$0.42 A	\$0.33 E	\$0.46 E	\$1.66 E
2019	\$0.44 A	\$0.46 A	\$0.37 A	\$0.47 A	\$1.74 A

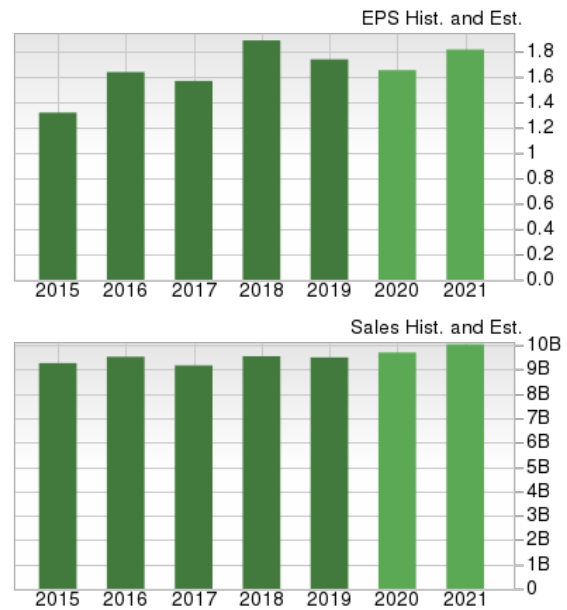
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/06/2020. The reports text is as of 07/07/2020.

Overview

Austin, MN-based **Hormel Foods Corporation (HRL)** is a leading manufacturer and marketer of various meat and food products in the U.S. and international markets. In fiscal 2017, Hormel Foods reported revenue results through five segments: On Nov 21, 2017, Hormel Foods declared that it has consolidated the Specialty Foods segment into the Grocery Products segment.

- **Grocery Products** (25% of total revenues in fiscal 2019): This segment consists primarily of the processing, marketing and sale of shelf-stable food products sold predominantly in the retail market.
- **Refrigerated Foods** (54.8% of total revenues in fiscal 2019): This segment includes the Hormel Refrigerated, Burke Corporation (Burke) and Dan's Prize operating segments. It consists primarily of the processing, marketing and sale of branded and unbranded pork and beef products for retail, food service and fresh-product customers.
- **Jennie-O Turkey Store** (14% of total revenues in fiscal 2019): This segment consists primarily of the processing, marketing and sale of branded and unbranded turkey products for retail, food service and fresh product customers.
- **International & Other** (6.2% of total revenues in fiscal 2019): This segment includes the Hormel Foods International ('HFI') operating segment, which manufactures markets and sells the company's various miscellaneous corporate products internationally.



The company concluded the divestiture of CytoSport business to PepsiCo. The transaction was valued at nearly \$465 million.



Reasons To Buy:

- ▲ **Coronavirus-Led Demand Aid Sales:** Hormel Foods' net sales in second-quarter fiscal 2020 came in at \$2,422.5 million, which surpassed the Zacks Consensus Estimate. Moreover, the top line increased about 3% year over year on rise in sales at International, Jennie-O Turkey Store and Grocery Products units. Additionally, organic sales grew 6% year over year.

The company particularly gained from increased retail sales at all segments, thanks to rising demand amid coronavirus-led pantry loading and stay-at home trends. In fact, Hormel Foods witnessed market-share gains in all retail categories, including increased sales to traditional retailers, discount chains, mass and club retailers as well as e-commerce retailers. Moreover, volumes witnessed a 4% rise, while it jumped 7% on an organic basis during the second quarter. Shares of Hormel Foods have increased 6.4% year to date against the industry's decline of 16.3%.

In second-quarter fiscal 2020, Hormel Foods' gained from robust sales growth owing to coronavirus outbreak.

- ▲ **Brand Strength & Innovation:** Strength in popular products like Hormel Black Label bacon, Applegate natural and organic products, Columbus grab-and-go charcuterie and Hormel pepperoni aided the company's growth in second-quarter fiscal 2020. Also, management has been making strategic advertisement investments to support growth of its brands. Additionally, the company focuses on launching products to meet consumers' preferences. In this regard, Hormel Foods' has been conducting virtual products showcases amid the coronavirus outbreak. During the second quarter of fiscal 2020, the company has already met its annual 15% innovation goal.

- ▲ **Focus on Buyouts:** Hormel Foods intends to strengthen its business on the back of strategic acquisitions. In this regard, the company acquired a Texas-based pit-smoked meats company, Sadler's Smokehouse (completed on Mar 2, 2020). The buyout is in sync with Hormel Foods' initiatives to strengthen position in foodservice and is already yielding.

Further, the Columbus (completed on Nov 27, 2017) and Fontanini (completed on Aug 17, 2017) buyouts have been aiding performance in the Refrigerated Foods segment. Notably, through the inclusion of Columbus, the company has been able to develop the new Hormel deli solutions division, which is included within refrigerated foods, and is helping to meet retailer needs. Also, the Ceratti acquisition (completed on Aug 24, 2017) is aiding growth in the International segment. These buyouts are expected to continue boosting performance in the forthcoming periods.

- ▲ **Efforts to Enhance Capacity:** Hormel Foods is focused on expanding capacity. Along with its fourth-quarter fiscal 2019 results, the company revealed plans to construct state-of-the-art dry sausage production facility for its Columbus charcuterie products. The envisioned plant will help Hormel Foods expand Columbus products distribution to the East Coast. Also, the company is on track with the expansion of its Burke pizza toppings plant.
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Reasons To Sell:

▼ **Covid-19 Hurts Bottom-Line:** Hormel Foods' second-quarter fiscal 2020 earnings of 42 cents per share lagged the Zacks Consensus Estimate. Further, the bottom line dropped nearly 9% year over year. This downside was caused by a rise in SG&A expenses along with higher effective tax rate. The company also absorbed nearly \$20 million as additional supply-chain costs stemming from the pandemic-led soft production volumes; employee bonuses as well as costs to ensure better safety measures in production units. In fact, management anticipates costs worth another \$60-\$80 million in the second half of fiscal 2020, which are likely to be more weighted in the fiscal third quarter.

Escalated supply-chain costs owing to the coronavirus pandemic put pressure on Hormel Foods' bottom-line in second-quarter fiscal 2020.

▼ **Dismal Refrigerated Unit Performance:** Refrigerated Foods segment sales inched down 0.8% year over year in second-quarter fiscal 2020. Volumes remained flat year over year, and organic sales dropped 3%. The downside was caused by a major fall in foodservice sales. Moreover, segment profit slipped 16.9% during the second quarter.

Speaking on foodservice business, Hormel Foods' enterprise foodservice revenues declined 21% year over year during second-quarter. This downturn was due to reduced demand from restaurants, hotels, distributors and various other foodservice venues in the wake of COVID-19 outbreak.

▼ **Pork Market Challenges:** The pork market continued to be under pressure in the second quarter of fiscal 2020 due to African swine fever in China. Evidently, the company witnessed higher pork prices in China during the quarter. In fact, these headwinds were present in the preceding few quarters. Notably, management's expectations regarding the dynamics of the pork industry in the long run had led the company to sell its Fremont processing facility to WholeStone Farms in December 2018. Global trade uncertainty remains a threat for fresh pork exports.

▼ **Industry Related Threats:** The food industry is witnessing stiff competition and aggressive promotional environment. The company faces intense competition from other food companies on the grounds of quality, prices and availability. To meet such competitive pressure effectively, Hormel Foods may have to lower prices for products or indulge in marketing activities to maintain market share. Additionally, the outbreak of livestock diseases is likely to disrupt the company's operations and profitability.

Last Earnings Report

Hormel Foods Q2 Earnings Lag Estimates, Sales Rise

Hormel Foods which acquired Sadler's Smokehouse on Mar 2, has posted second-quarter fiscal 2020 results, wherein the top line improved year over year and beat the Zacks Consensus Estimate. However, earnings declined and lagged the consensus mark. Sales were largely aided by strength in the retail channel — courtesy of the COVID-19-led increased demand. However, foodservice sales dropped sharply. Also, the bottom line was adversely impacted by elevated costs, including those related to the pandemic.

Quarter Ending **04/2020**

Report Date	May 21, 2020
Sales Surprise	2.21%
EPS Surprise	-4.55%
Quarterly EPS	0.42
Annual EPS (TTM)	1.71

Incidentally, the company is committed toward ensuring employees' safety across the facilities. Additionally, it has announced bonuses of more than \$11 million for all plant production workers. These initiatives entail high costs. Nonetheless, the company believes it is financially stable to navigate through the crisis situation despite the uncertain consumer behaviour, operational hiccups and volatile raw-material markets. However, management withdrew its guidance for fiscal 2020.

Quarter in Detail

Quarterly earnings of 42 cents per share lagged the Zacks Consensus Estimate of 44 cents. Further, the bottom line dropped roughly 9% from adjusted earnings of 46 cents recorded last year. This resulted from a rise in SG&A expenses, along with higher effective tax rate. The company also absorbed roughly \$20 million as additional supply-chain costs stemming from the pandemic-led soft production volumes; employee bonuses as well as costs to ensure better safety measures in production units. Management anticipates costs worth another \$60-\$80 million in the second half of fiscal 2020, which are likely to be more weighted in the fiscal third quarter.

Net sales were \$2,422.5 million, which surpassed the Zacks Consensus Estimate of \$2,370 million. Moreover, the top line increased about 3% year over year on rise in sales at International, Jennie-O Turkey Store and Grocery Products units. Additionally, organic sales grew 6% year over year.

The company particularly gained from increased retail sales at all segments, thanks to the rising demand amid coronavirus-led pantry loading and stay-at home trends. In fact, Hormel Foods witnessed market-share gains in all retail categories, including increased sales to traditional retailers, discount chains, mass and club retailers, as well as e-commerce retailers. However, the company's foodservice sales saw a sharp decline in all segments due to the pandemic. Channel-wise, U.S. retail net sales climbed 16%, U.S. deli net sales grew 5% and International net sales advanced 11%. International sales were backed by solid exports in the International and Jennie-O Turkey Store units. Nonetheless, the U.S. foodservice net sales slid 21%. Hormel Foods' volumes witnessed a 4% rise, while it jumped 7% on an organic basis.

Selling, general and administrative expenses flared up on the unfavorable year-over-year comparison related to CytoSport's divestiture. Operating margin in this quarter contracted 120 basis points (bps) to 12.1%.

Segment Details

Sales in the **Grocery Products** unit jumped 7.5% to \$683.3 million and volumes were up 7% on solid demand for branded retail products, partly offset by CytoSport's divestiture. Further, organic sales climbed 20%, thanks to the strength in Skippy peanut butter, Hormel chili and Hormel Compleats microwave meals. Increased sales and a better mix aided segment profit, which grew 22.3% to \$127.8 million.

Revenues in the **Jennie-O Turkey Store** segment rose 12.4% to \$343.1 million, with volumes rising 19%. Sales were driven by improvements at commodity and whole-bird businesses, along with better higher retail sales, somewhat negated by a fall in foodservice sales. Retail sales were fueled by distribution gains before the coronavirus outbreak and high demand for lean ground products during the pandemic. Segment profit surged 54.1% to \$27.3 million, owing to increased sales and better operational and live production performance.

The company's **Refrigerated Foods** segment generated sales of \$1,247.3 million, down 0.8% year over year. Volumes remained flat year over year, and organic sales dipped 3%. The downside was accountable to a major fall in foodservice sales, partially made up by solid retail and deli products sales, along with contributions from Sadler's Smokehouse buyout. Moreover, segment profit slipped 16.9% to \$131.4 million.

International & Other sales inched up 1.7% to \$148.8 million and organic sales jumped 3% on the back of robust demand for SPAM luncheon meat and other branded exports, which countered the weakness in foodservice sales (particularly in China). Volumes dipped 1%. Segment profit soared 61.7% to \$23.2 million on elevated branded export margins and income from affiliates.

Balance Sheet & Cash Flow

The company ended the quarter with cash and cash equivalents of \$606.1 million and long-term debt of \$56.9 million (excluding current maturities).

In second-quarter fiscal 2020, Hormel Foods generated cash of \$359.9 million from operating activities. Capital expenditure summed \$80 million in the quarter, resulting in operating free cash flow of \$280 million. Management expects capital expenditure of \$340 million for fiscal 2020. During the quarter, Hormel Foods repurchased 0.3 million shares for \$12 million.

Recent News

Hormel Foods' Jennie-O Turkey Reopens Facilities – May 9, 2020

Hormel Foods' Jennie-O Turkey unit informed that it has reopened its Melrose facility, which underwent a voluntary pause owing to the coronavirus outbreak. Earlier in the week, Jennie-O Turkey Store announced that it had reopened its Benson Avenue facility, in Willmar as well.

Hormel Foods Declares Dividend - Mar 24, 2020

Hormel Foods declared dividend of 23.25 cents a share, which is payable on May 15, 2020 to shareholders of record as on Apr 13.

Valuation

Hormel Foods shares are up 6.4% in the year-to-date period and 16% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 16.3% in the year-to-date period, while the Zacks Consumer Staples sector is down 12.4%. Over the past year, the Zacks sub-industry is down 14.4%, while the sector declined 11.4%.

The S&P 500 index is down 2.7% in the year-to-date period and up 5.7% in the past year.

The stock is currently trading at 27.17X forward 12-month earnings, which compares to 18.34X for the Zacks sub-industry, 19.36X for the Zacks sector and 22.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.65X and as low as 17.63X, with a 5-year median of 22.45X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$50 price target reflects 28.31X forward 12-month earnings.

The table below shows summary valuation data for HRL

Valuation Multiples - HRL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.17	18.34	19.36	22.36
	5-Year High	29.65	18.55	22.38	22.36
	5-Year Low	17.63	11.48	16.64	15.15
	5-Year Median	22.45	14.68	19.95	17.42
P/S F12M	Current	2.61	0.89	9.26	3.48
	5-Year High	2.76	1.11	11.02	3.48
	5-Year Low	1.51	0.63	8.01	2.54
	5-Year Median	2.06	0.94	9.82	3.01
EV/EBITDA F12M	Current	18.13	18.63	33.35	12.16
	5-Year High	18.87	18.63	36.92	12.64
	5-Year Low	11.46	7.49	29.13	9.08
	5-Year Median	13.94	9.73	33.35	10.81

As of 07/06/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (179 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Pilgrims Pride Corporation (PPC)	Outperform	1
Conagra Brands Inc. (CAG)	Neutral	2
General Mills, Inc. (GIS)	Neutral	2
Industrias Bachoco, S.A. de C.V. (IBA)	Neutral	3
Sanderson Farms, Inc. (SAFM)	Neutral	3
Post Holdings, Inc. (POST)	Underperform	5
Red River Bancshares, Inc. (RRBI)	Underperform	5
Tyson Foods, Inc. (TSN)	Underperform	5

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	HRL	X Industry	S&P 500	IBA	PPC	SAFM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	1	3
VGM Score	B	-	-	A	A	B
Market Cap	25.86 B	4.13 B	22.04 B	1.83 B	4.13 B	2.52 B
# of Analysts	6	2.5	14	1	1	1
Dividend Yield	1.94%	0.00%	1.89%	1.81%	0.00%	1.13%
Value Score	C	-	-	A	A	B
Cash/Price	0.02	0.03	0.07	0.50	0.13	0.02
EV/EBITDA	18.16	7.12	12.81	3.00	6.18	12.45
PEG Ratio	4.52	2.48	2.94	NA	1.37	NA
Price/Book (P/B)	4.19	1.48	3.01	1.00	1.67	1.84
Price/Cash Flow (P/CF)	23.11	7.02	11.87	7.33	6.00	12.33
P/E (F1)	28.78	13.51	21.54	8.88	9.20	NA
Price/Sales (P/S)	2.69	0.59	2.35	0.59	0.35	0.72
Earnings Yield	3.44%	5.42%	4.39%	11.26%	10.87%	-1.28%
Debt/Equity	0.01	0.05	0.76	0.04	1.15	0.17
Cash Flow (\$/share)	2.08	2.08	6.94	4.99	2.79	9.19
Growth Score	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	5.79%	-7.65%	10.90%	-7.71%	-12.21%	-31.56%
Proj. EPS Growth (F1/F0)	-4.89%	-0.24%	-9.51%	23.35%	12.35%	-157.77%
Curr. Cash Flow Growth	-8.04%	-5.88%	5.51%	-26.44%	16.70%	3.93%
Hist. Cash Flow Growth (3-5 yrs)	8.67%	3.13%	8.55%	-11.37%	-4.98%	-8.98%
Current Ratio	1.70	1.89	1.30	3.81	1.89	3.04
Debt/Capital	0.91%	4.34%	44.46%	3.70%	53.42%	14.40%
Net Margin	9.64%	3.73%	10.62%	7.65%	3.73%	-0.06%
Return on Equity	15.38%	13.01%	15.75%	11.91%	15.14%	-2.65%
Sales/Assets	1.17	1.29	0.55	1.12	1.71	1.91
Proj. Sales Growth (F1/F0)	2.12%	1.57%	-2.57%	-7.03%	0.00%	1.57%
Momentum Score	B	-	-	B	D	D
Daily Price Chg	-0.19%	1.60%	1.12%	3.40%	0.12%	1.60%
1 Week Price Chg	-0.27%	-0.13%	3.66%	0.44%	0.24%	-3.25%
4 Week Price Chg	-0.25%	-7.33%	-7.12%	-6.17%	-17.89%	-15.29%
12 Week Price Chg	1.89%	-1.25%	11.84%	13.89%	-14.50%	-8.98%
52 Week Price Chg	16.00%	-27.43%	-6.03%	-30.37%	-36.65%	-18.78%
20 Day Average Volume	1,935,303	246,675	2,400,079	16,073	1,141,367	246,675
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-6.41%	-10.56%	-8.26%	26.38%	9.64%	-165.93%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	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	C
Growth Score	A
Momentum Score	B
VGM Score	B

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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