

Hormel Foods(HRL)

\$48.53 (As of 03/17/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

Hormel Foods' shares have outpaced the industry in the past three months. The company is benefiting from strength in Refrigerated Foods segment on the back of value-added growth, effective pricing and innovation. Sales in the unit increased 5.7% in first-quarter fiscal 2020. Moreover, Hormel Foods' solid advertising and synergies from the buyouts of Columbus, Fontanini and Ceratti are yielding. Further, the company's acquisition of Sadler's Smokehouse is likely to strengthen its position in foodservice. However, Hormel Foods witnessed dismal show in Grocery Products unit during the quarter owing to CytoSport's divestiture. Also, higher pork prices led to input cost inflation in Brazil and China that put pressure on the International segment's profits. Also, management expects elevated protein prices for fiscal 2020.

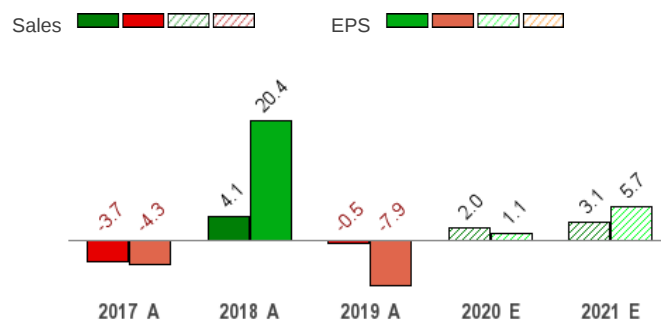
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.86 - \$37.00
20 Day Average Volume (sh)	3,729,937
Market Cap	\$26.1 B
YTD Price Change	7.6%
Beta	0.12
Dividend / Div Yld	\$0.93 / 1.9%
Industry	Food - Meat Products
Zacks Industry Rank	Bottom 18% (207 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.2%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	05/28/2020
Earnings ESP	-1.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,517 E	2,531 E	2,533 E	2,752 E	9,994 E
2020	2,384 A	2,335 E	2,366 E	2,605 E	9,690 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	\$0.48 E	\$0.49 E	\$0.49 E	\$0.56 E	\$1.86 E
2020	\$0.45 A	\$0.42 E	\$0.41 E	\$0.47 E	\$1.76 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.

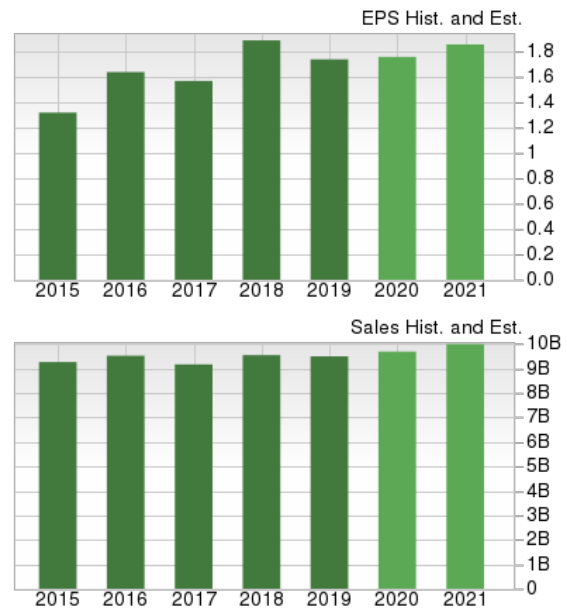
P/E TTM	27.7
P/E F1	27.6
PEG F1	4.3
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/17/2020. The reports text is as of 03/18/2020.

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:

▲ **Brand Strength & Innovation:** Strength in popular brands like Applegate, Hormel BLACK LABEL, SPAM, Hormel BACON 1 and Wholly Guacamole dips among others are expected to drive the company's revenues. Notably, Applegate brand's natural and organic products performed well during the first quarter in both retail and foodservice channels. Further, the company is optimistic about this brand's meat and plant-blend products. Also, Hormel Foods remains committed toward making strategic advertisement investments to support growth of its brands. Additionally, the company focuses on launching products to meet consumers' preferences. Notably, sales from product innovations have increased by a little less than 15% over the last five years. Management earlier stated that it expects innovations and e-commerce to aid sales growth in fiscal 2020. Shares of Hormel Foods have gained 9.3% in the last three months, against the industry's decline of 33.2%.

Hormel Foods' Refrigerated Foods category is steadily growing on the back of strong brand portfolio and effective strategies. The unit remained strong in the first quarter.

▲ **Refrigerated Foods Segment Continues to Grow:** Hormel Foods' Refrigerated Foods category is steadily growing on the back of strong brand portfolio and effective strategies. Notably, the segment generated sales of \$1,351.8 million, up 5.7% year over year in first-quarter fiscal 2020. Also, volumes rose 3%. The upside was fueled by products like Hormel Bacon 1 and Hormel Fire Braised as well as retail sales of Hormel Black Label and Hormel Cure 81 brands. Also, improved deli sales of Hormel Gatherings party trays along with Applegate branded products contributed to the upside. Moreover, segmental profit increased 2.9% to \$167.3 million due to increased commodity profits.

Prior to this, the segment witnessed year-on-year revenue growth of nearly 4% in fourth quarter and 1% each in the third and the second quarter of fiscal 2019, preceded by 1.9% growth in the first quarter. We expect the Refrigerated Foods segment to continue benefiting from its value-added growth, effective pricing and innovation.

▲ **Focus on Buyouts:** Hormel Foods intends to strengthen its business on the back of strategic acquisitions. Recently, the company acquired a Texas-based pit-smoked meats company, Sadler's Smokehouse. The buyout is in sync with Hormel Foods' initiatives to strengthen position in foodservice. Also, the company plans to expand the Sadler's product line into its retail and deli channels.

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 plant, which is anticipated to be operational in early fiscal 2021, will help Hormel Foods expand Columbus products distribution to the East Coast. Also, the company is progressing well with the expansion of its Burke pizza toppings plant, which is expected to be completed in the summer this year.

Reasons To Sell:

▼ **Dismal Grocery & International Unit Performance:** Revenues in the Grocery Products unit declined 10.9% to \$540.6 million in the first quarter. Volumes in the segment declined 14% due to the divestiture of CytoSport. Further, organic sales declined as gains from SPAM and Wholly could not completely offset weakness at Skippy. Moreover, segmental profit declined 28.2% to \$68.4 million due to the divestiture of CytoSport, increased raw material expenses and reduced contract manufacturing profits. Also, lower volumes marred profits in the segment.

The pork market remained under pressure in the first quarter due to African swine fever. Also, Hormel Foods continues to battle input cost inflation, which is likely to persist.

Moving on, although sales in the International & Other unit increased year over year, profit in the segment plunged 20.1% to \$20 million. The downside was caused by elevated input costs in China, Brazil and other countries in Asia. We believe that persistence of such trends is a concern.

▼ **Pork Market Challenges:** The pork market continued to be under pressure in the first quarter due to African swine fever in China. Evidently, higher pork prices led to input cost inflation in Brazil and China. This dented profits in the International segment during the said 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 led the company to sell its Fremont processing facility to WholeStone Farms in December 2018. Global trade uncertainty remains a hurdle for fresh pork exports.

▼ **Input Cost Inflation:** Hormel Foods continues to battle input cost inflation, which impacted results in first-quarter fiscal 2019. Global trade volatility as well as African swine fever is leading to input cost inflation in China and Brazil. Input cost headwinds are likely to persist in fiscal 2020. Also, management expects elevated protein prices for fiscal 2020. This, in turn, is likely to impact profits.

▼ **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 Q1 Earnings Lag Estimates, Sales Up Y/Y

Hormel Foods Corporation has posted first-quarter fiscal 2020 results, wherein both top and bottom lines increased year over year. Its sales surpassed the Zacks Consensus Estimate, while earnings missed the same.

Quarter in Detail

Quarterly earnings of 45 cents per share lagged the Zacks Consensus Estimate of 46 cents. Nevertheless, the bottom line increased 2% year over year. This can be attributed to higher sales and reduced effective tax rate.

Net sales were \$2,384.4 million, which surpassed the Zacks Consensus Estimate of \$2,361 million. Moreover, the top line increased 1% year over year, owing to rise in sales at International, Jennie-O Turkey Store and Refrigerated Foods units. Notably, organic sales grew 4% year over year.

Hormel Foods' volumes witnessed a 1% drop, while rose 2% on an organic basis. Selling, general and administrative expenses increased nearly 1% to \$195.5 million. Operating margin contracted 120 bps to 11.8%.

Segment Details

Sales in the **Grocery Products** unit decreased 10.9% to \$540.6 million and volumes declined 14% due to the divestiture of CytoSport. Further, organic sales declined as gains from SPAM and Wholly could not completely offset weakness at Skippy. Also, segmental profit declined 28.2% to \$68.4 million.

Revenues in the **Jennie-O Turkey Store** segment rose 2.8% to \$330.1 million, with volumes rising 8%. Sales were driven by improvements at commodity and whole-bird businesses along with better pricing. Segmental profit grew 1.7% to \$3.6 million, owing to increased commodity profits and operational gains.

The company's **Refrigerated Foods** segment generated sales of \$1,351.8 million, up 5.7% year over year. Also, volumes rose 3%. The upside was fueled by-products like Hormel Bacon 1 and Hormel Fire Braised as well as retail sales of Hormel Black Label and Hormel Cure 81. Also, improved deli sales of Hormel Gatherings party trays along with Applegate branded products contributed to the upside. Moreover, segmental profit increased 2.9% to \$167.3 million due to increased commodity profits.

International & Other revenues increased 5.4% to \$161.9 million. Additionally, volumes increased 5%. Results were driven by improved fresh pork export volume and robust demand in China. However, segmental profit plunged 20.1% to \$20 million on elevated input costs in China, Brazil and other countries in Asia.

Balance Sheet & Cash Flow

The company ended the quarter with cash and cash equivalents of \$724.4 million, and long-term debt of \$309 million (excluding current maturities).

In first-quarter fiscal 2020, Hormel Foods generated cash of \$188.4 million from operating activities. Capital expenditure summed \$58 million in the quarter. Management expects capital expenditure of \$360 million for fiscal 2020.

Key Development

The company announced an agreement to acquire a Texas-based pit-smoked meats company, Sadler's Smokehouse. The buyout is in synch with Hormel Foods' initiative of strengthening position in foodservice. Also, the company plans to expand the Sadler's product line into its retail and deli channels. The deal, which is worth \$270 million, is likely to be closed in March 2020. The acquisition is anticipated to be neutral to slightly negative to fiscal 2020 earnings as a result of the investments into the business and production facility. Yearly sales, excluding transfers to Hormel Foods, are likely to be somewhere near \$140 million.

Outlook

The company is pleased with the strength in the Refrigerated Foods segment and at the Jennie-O Turkey Store. The company is particularly encouraged about the prospects of SPAM, Wholly and Herdez. Also, it is undertaking efforts to enhance prospects at SKIPPY spreads and Hormel brands. However, headwinds related to the African swine fever and the recent outbreak of coronavirus in China. Also, it expects elevated protein prices for fiscal 2020.

All Said, Hormel Foods reaffirmed its previous guidance. The company anticipates net sales of \$9.5-\$10.3 billion for fiscal 2020, whereas it reported \$9.5 billion in fiscal 2019. Earnings are likely to be \$1.69-\$1.83 per share, whereas it reported \$1.80 in fiscal 2019.

Quarter Ending **01/2020**

Report Date	Feb 20, 2020
Sales Surprise	0.98%
EPS Surprise	-2.17%
Quarterly EPS	0.45
Annual EPS (TTM)	1.75

Recent News

Hormel Foods Completes Acquisition of Sadler's Smokehouse - Mar 3, 2020

Hormel Foods acquired a Texas-based pit-smoked meats company, Sadler's Smokehouse. The buyout is in synch with Hormel Foods' initiative of strengthening position in foodservice. Also, the company plans to expand the Sadler's product line into its retail and deli channels.

Valuation

Hormel Foods shares are up 7.6% in the year-to-date period and 14.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 34.7% in the year-to-date period, while the Zacks Consumer Staples sector is down 25.4%. Over the past year, the Zacks sub-industry and the sector are down 18.8% and 19%, respectively.

The S&P 500 index is down 25.8% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 27.01X forward 12-month earnings, which compares to 10.72X for the Zacks sub-industry, 15.03X for the Zacks sector and 13.87X 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 22.11X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$51 price target reflects 28.38X 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	27.01	10.72	15.03	13.87
	5-Year High	29.65	18.55	22.37	19.34
	5-Year Low	17.63	10.72	15.03	13.87
	5-Year Median	22.11	14.61	19.66	17.42
P/S F12M	Current	2.66	0.66	7.48	2.55
	5-Year High	2.67	1.11	11.16	3.43
	5-Year Low	1.43	0.63	7.48	2.54
	5-Year Median	2	0.93	9.89	3
EV/EBITDA F12M	Current	16.2	9.82	29.1	11.31
	5-Year High	18.87	18.63	37.3	14.18
	5-Year Low	11.46	7.49	29.1	9.07
	5-Year Median	13.59	9.7	33.66	10.84

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (207 out of 253)



Top Peers

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

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	HRL Neutral	X Industry	S&P 500	IBA Neutral	PPC Neutral	SAFM Underperform
VGM Score	D	-	-	A	B	F
Market Cap	26.10 B	2.63 B	17.72 B	1.57 B	4.42 B	2.63 B
# of Analysts	6	2.5	13	1	2	3
Dividend Yield	1.92%	0.01%	2.51%	2.73%	0.00%	1.08%
Value Score	D	-	-	A	B	D
Cash/Price	0.03	0.06	0.06	0.59	0.06	0.02
EV/EBITDA	18.43	9.76	10.97	1.98	6.39	12.81
PEG Ratio	4.34	0.92	1.54	NA	0.54	NA
Price/Book (P/B)	4.26	1.23	2.39	0.73	1.74	1.92
Price/Cash Flow (P/CF)	23.37	6.35	9.36	6.65	6.35	12.87
P/E (F1)	27.57	10.13	13.98	7.62	7.84	16.36
Price/Sales (P/S)	2.74	0.49	1.87	0.49	0.39	0.75
Earnings Yield	3.63%	10.41%	7.13%	13.13%	12.76%	6.11%
Debt/Equity	0.05	0.15	0.70	0.04	0.99	0.15
Cash Flow (\$/share)	2.08	2.79	7.01	4.71	2.79	9.19
Growth Score	C	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	6.96%	-12.18%	10.85%	-11.35%	-13.01%	-31.11%
Proj. EPS Growth (F1/F0)	1.15%	12.61%	5.38%	23.05%	39.51%	187.92%
Curr. Cash Flow Growth	-8.04%	-5.88%	6.15%	-30.64%	16.70%	3.93%
Hist. Cash Flow Growth (3-5 yrs)	8.67%	3.13%	8.55%	-12.40%	-4.98%	-8.98%
Current Ratio	2.34	1.58	1.24	3.46	1.58	2.93
Debt/Capital	4.82%	12.75%	42.57%	3.56%	49.76%	12.75%
Net Margin	10.30%	4.71%	11.57%	5.10%	4.00%	0.92%
Return on Equity	15.90%	13.48%	16.74%	7.96%	17.49%	2.47%
Sales/Assets	1.18	1.29	0.54	1.13	1.72	1.97
Proj. Sales Growth (F1/F0)	2.03%	2.56%	3.33%	3.09%	0.00%	6.20%
Momentum Score	C	-	-	A	C	B
Daily Price Chg	13.84%	6.24%	5.62%	8.04%	9.52%	10.95%
1 Week Price Chg	-3.53%	-13.48%	-11.01%	-15.61%	-11.34%	-7.39%
4 Week Price Chg	0.56%	-34.09%	-28.54%	-30.96%	-30.73%	-12.65%
12 Week Price Chg	7.01%	-42.04%	-25.74%	-40.70%	-45.56%	-32.70%
52 Week Price Chg	14.14%	-15.48%	-18.88%	-31.31%	-14.40%	-7.25%
20 Day Average Volume	3,729,937	119,216	3,651,283	11,200	1,402,845	637,493
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.47%	-1.98%	-0.58%	0.00%	-7.76%	-21.11%
(F1) EPS Est 12 week change	0.09%	-2.32%	-1.18%	-1.91%	-1.53%	-11.47%
(Q1) EPS Est Mthly Chg	-0.40%	0.00%	-0.77%	NA	NA	8.26%

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	D
Growth Score	C
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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