

Hormel Foods(HRL)

\$47.88 (As of 01/30/20)

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)

2-Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Hormel Foods' shares have risen and outperformed the industry in the past three months. The company is gaining on solid advertising, innovation and synergies from the buyouts of Columbus, Fontanini and Ceratti. Further, continued strength in its Refrigerated Foods segment has been aiding growth. During the fourth quarter, Refrigerated Foods benefited from value-added growth, effective pricing and innovation. However, it witnessed dismal show in Grocery Products unit during the quarter, owing to CytoSport's divestiture. Moreover, the International unit was hurt by soft pork exports and input cost inflation. Hormel Foods continues to battle input cost headwinds stemming from the African swine fever and global trade volatility. Also, the company expects elevated protein prices for fiscal 2020.

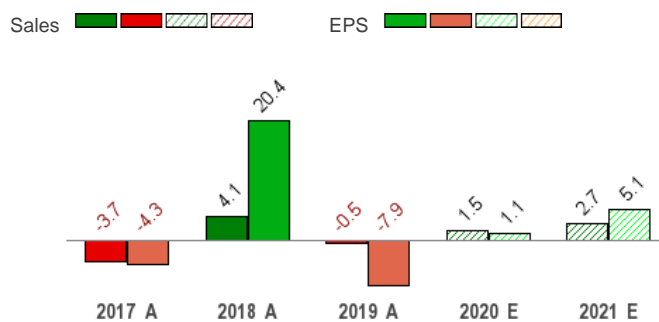
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.98 - \$37.00
20 Day Average Volume (sh)	2,212,867
Market Cap	\$25.6 B
YTD Price Change	6.1%
Beta	0.07
Dividend / Div Yld	\$0.93 / 1.9%
Industry	Food - Meat Products
Zacks Industry Rank	Top 8% (20 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	27.5
P/E F1	27.2
PEG F1	3.6
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,500 E	2,506 E	2,495 E	2,716 E	9,901 E
2020	2,361 E	2,352 E	2,349 E	2,580 E	9,642 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	\$0.47 E	\$0.50 E	\$0.48 E	\$0.48 E	\$1.85 E
2020	\$0.46 E	\$0.45 E	\$0.42 E	\$0.40 E	\$1.76 E
2019	\$0.44 A	\$0.46 A	\$0.37 A	\$0.47 A	\$1.74 A

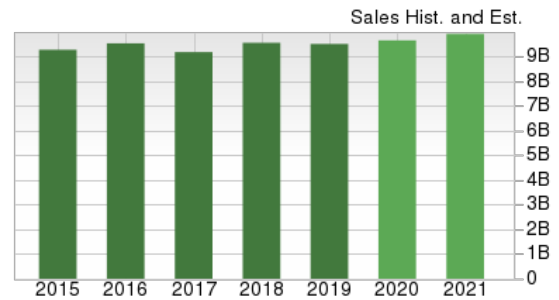
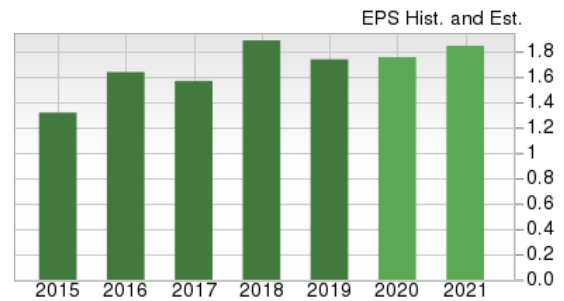
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/30/2020. The reports text is as of 01/31/2020.

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:** Strong demand for popular brands like Applegate, Natural Choice, SPAM, Muscle Milk and Wholly Guacamole dips are expected to continue driving the company's revenues. Hormel Foods also 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 has increased by a little less than 15% over the last five years. Further, management expects innovations and e-commerce to aid sales growth in fiscal 2020. We note that shares of the company have gained 16% in the past three months outperforming the industry's 3.1% growth.

Hormel Foods' Refrigerated Foods category is steadily growing on the back of strong brand portfolio and effective strategies. The unit remained strong in the fourth 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, during fourth-quarter fiscal 2019, the unit generated sales of \$1,373 million, up roughly 4% year over year. The upside was fueled by products like Hormel Bacon 1 and Hormel Fire Braised as well as retail sales of Hormel Black Label, Columbus, Hormel Natural Choice, Applegate and Hormel Gatherings.

Prior to this, the segment witnessed year-on-year revenue growth of 1% each in the third and second quarters 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. To this end, the Columbus and Fontanini buyouts have been aiding the performance of 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 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 commence production in the back half of fiscal 2020.

▲ **Shareholder-Friendly Moves:** Hormel Foods regularly returns value through dividends and share buybacks, thanks to its healthy cash flows. In fiscal 2019, the company repurchased 4.3 million shares for \$174 million. Further, the company paid out dividends worth \$437 million. Management also announced an 11% hike in annual dividend, taking the same to 93 cents per share. This marks the company's 54th consecutive year of dividend hike. Also, the company paid its 365th successive quarterly dividend in November 2019.

Reasons To Sell:

▼ **Dismal Grocery & International Unit Performance:** Hormel Foods' fourth-quarter fiscal 2019 sales descended about 1% year over year due to dismal results at the Grocery and International segments. Sales in this unit tumbled about 10% to \$584.1 million and volumes declined 9% due to the divestiture of CytoSport. Further, continued weakness at Skipppy (owing to completion in the peanut butter category) hurt organic sales to an extent. Persistence of such trends is a concern.

Moving on, International & Other revenues declined 12.3% to \$145.9 million in the fourth quarter. Additionally, volumes decreased 14%. Results were marred by softness in branded and fresh exports. Also, the company's Brazilian business delivered a weak performance. Operating profit plunged 29.6% to \$17.5 million on account of elevated input costs in China and Brazil. This, in turn, stemmed from escalated pork prices owing to the African swine fever.

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

▼ **Pork Market Challenges:** The pork market remained challenged in the fourth quarter due to African swine fever in China. Evidently, weakness in branded and fresh pork exports weighed on the company's International sales and volumes. Also, elevated pork prices stemming from African swine fever resulted in input cost inflation in Brazil and China. These headwinds also persisted in the preceding few quarters. In fact, we note that 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 fourth-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 Q4 Earnings Match Estimates, Sales Miss

Hormel Foods posted fourth-quarter fiscal 2019 results. Quarterly earnings of 47 cents per share came in line with the Zacks Consensus Estimate. However, the bottom line fell 2% year over year due to lower sales and increased effective tax rate.

Net sales came in at \$2,501.5 million, which fell short of the Zacks Consensus Estimate of \$2,516 million. Moreover, the top line dropped approximately 1% year over year, which can be accountable to sales declines at the International and Grocery units. Notably, organic sales grew 2% year over year.

Hormel Foods witnessed a 2% drop in volumes, which rose almost 1% on an organic basis.

Selling, general and administrative expenses declined 10.5% to \$183.8 million. Operating margin expanded 10 bps to 12.8%.

Segment Details

Sales in the **Grocery Products** unit decreased about 10% to \$584.1 million and volumes declined 9%, due to the divestiture of CytoSport. However, organic sales rose as gains from SPAM and Herdez compensated for weakness at Skippy. Further, operating profit grew 2.3% to \$80.9 million.

Revenues in the **Jennie-O Turkey Store** segment rose 2.6% to \$398.5 million, with volumes rising 5%. Softness in retail sales was more than offset by improvements at the commodity and whole-bird businesses. Operating profit grew 5.9% to \$41 million, owing to reduced freight expenses and operational gains.

The company's **Refrigerated Foods** segment generated sales of \$1,373 million, up roughly 4% year over year. Also, volumes rose 1%. The upside was fueled by products like Hormel Bacon 1 and Hormel Fire Braised, as well as retail sales of Hormel Black Label, Columbus, Hormel Natural Choice, Applegate and Hormel Gatherings. Operating profit decreased 2.7% to \$189.3 million, due to increased operational costs and lower commodity profits.

International & Other revenues declined 12.3% to \$145.9 million. Additionally, volumes decreased 14%. Results were marred by softness in branded and fresh exports. Also, the company's Brazilian business delivered a weak performance. Operating profit plunged 29.6% to \$17.5 million on account of elevated input costs in China and Brazil. This, in turn, stemmed from escalated pork prices owing to the African swine fever.

Balance Sheet & Cash Flow

The company ended the quarter with cash and cash equivalents of \$672.9 million and long-term debt of \$250 million (excluding current maturities).

In fiscal 2019, Hormel Foods generated cash of roughly \$923 million from operating activities. Capital expenditure summed \$294 million in the fiscal. Management expects capital expenditure of \$360 million for fiscal 2020.

In fiscal 2019, the company repurchased 4.3 million shares for \$174 million. Further, the company paid out dividends worth \$437 million. Management also announced an 11% hike in annual dividend, taking the same to 93 cents per share.

Outlook

Hormel Foods is pleased with the strength in the Refrigerated Foods segment. It expects to see operating income and sales growth in fiscal 2020. The company is particularly encouraged about prospects of SPAM, Wholly, Jennie-O, Hormel Natural Choice, Hormel Gatherings, SKIPPY, Herdez, Columbus, Hormel Bacon 1 and Applegate.

However, the company continues to battle headwinds related to the African swine fever and global trade volatility. Also, it expects elevated protein prices for fiscal 2020.

All Said, Hormel Foods anticipates net sales of \$9.5-\$10.3 billion for fiscal 2020 compared with \$9.5 billion reported in fiscal 2019. Earnings are likely to be \$1.69-1.83 per share compared with \$1.80 reported in fiscal 2019.

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	-0.57%
EPS Surprise	0.00%
Quarterly EPS	0.47
Annual EPS (TTM)	1.74

Valuation

Hormel Foods shares are up 14% in the over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 22.8% and 12% over the past year, respectively.

The S&P 500 index is up 20.4% in the past year.

The stock is currently trading at 26.89X forward 12-month earnings, which compares to 14.73X for the Zacks sub-industry, 19.57X for the Zacks sector and 18.83X 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 21.92X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$51 price target reflects 28.64X 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	26.89	14.73	19.57	18.83
	5-Year High	29.65	18.55	22.38	19.34
	5-Year Low	17.63	11.48	16.66	15.18
	5-Year Median	21.92	14.62	19.74	17.46
P/S F12M	Current	2.64	0.94	9.99	3.49
	5-Year High	2.64	1.11	11.13	3.49
	5-Year Low	1.34	0.63	8.09	2.54
	5-Year Median	1.99	0.94	9.88	3
EV/EBITDA F12M	Current	18.36	9.82	34.39	12.66
	5-Year High	18.36	18.63	37.23	12.66
	5-Year Low	11.46	7.49	29.38	9.08
	5-Year Median	13.5	9.67	33.54	10.78

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Top 8% (20 out of 255)



Top Peers

Pilgrims Pride Corporation (PPC)	Outperform
Sanderson Farms, Inc. (SAFM)	Outperform
Conagra Brands Inc. (CAG)	Neutral
Campbell Soup Company (CPB)	Neutral
General Mills, Inc. (GIS)	Neutral
Industrias Bachoco, S.A. de C.V. (IBA)	Neutral
TreeHouse Foods, Inc. (THS)	Neutral
Tyson Foods, Inc. (TSN)	Neutral

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	HRL Neutral	X Industry	S&P 500	PPC Outperform	SAFM Outperform	TSN Neutral
VGM Score	D	-	-	A	A	A
Market Cap	25.60 B	3.16 B	23.94 B	6.72 B	3.16 B	30.95 B
# of Analysts	6	1.5	13	2	4	5
Dividend Yield	1.94%	0.00%	1.77%	0.00%	0.90%	1.98%
Value Score	C	-	-	A	B	A
Cash/Price	0.03	0.09	0.04	0.09	0.03	0.02
EV/EBITDA	18.07	12.77	14.14	11.12	14.42	10.10
PEG Ratio	3.63	1.10	2.01	0.49	NA	1.10
Price/Book (P/B)	4.32	2.11	3.25	2.88	2.22	2.18
Price/Cash Flow (P/CF)	23.05	10.01	13.56	11.23	15.45	10.01
P/E (F1)	27.20	12.69	18.90	11.06	12.82	12.56
Price/Sales (P/S)	2.70	0.75	2.64	0.61	0.92	0.73
Earnings Yield	3.68%	7.88%	5.28%	9.02%	7.80%	7.96%
Debt/Equity	0.04	0.04	0.72	1.08	0.04	0.69
Cash Flow (\$/share)	2.08	2.40	6.92	2.40	9.19	8.46
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	8.16%	-12.67%	10.68%	-13.27%	-27.22%	17.30%
Proj. EPS Growth (F1/F0)	1.05%	17.46%	7.59%	39.94%	341.04%	23.63%
Curr. Cash Flow Growth	-8.04%	-11.27%	10.81%	-40.11%	3.93%	-3.73%
Hist. Cash Flow Growth (3-5 yrs)	8.67%	6.68%	8.78%	-3.14%	-8.98%	13.92%
Current Ratio	2.14	1.82	1.22	1.82	2.69	1.30
Debt/Capital	4.05%	4.05%	42.99%	51.87%	3.73%	40.86%
Net Margin	10.31%	4.77%	11.69%	3.24%	1.55%	4.77%
Return on Equity	16.14%	13.48%	17.33%	17.87%	3.94%	14.53%
Sales/Assets	1.18	1.29	0.55	1.73	1.97	1.29
Proj. Sales Growth (F1/F0)	1.52%	2.37%	4.12%	NA	10.91%	9.34%
Momentum Score	F	-	-	A	A	C
Daily Price Chg	1.18%	0.00%	0.36%	1.28%	1.05%	0.40%
1 Week Price Chg	2.01%	-4.56%	-1.09%	-5.53%	-4.56%	-4.37%
4 Week Price Chg	8.06%	-5.33%	-0.22%	-16.31%	-18.53%	-5.80%
12 Week Price Chg	15.01%	-5.70%	4.08%	-13.52%	-8.69%	1.80%
52 Week Price Chg	13.14%	14.22%	16.06%	32.92%	15.30%	36.87%
20 Day Average Volume	2,212,867	93,471	1,808,632	728,860	397,584	2,703,261
(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%	19.74%	0.00%
(F1) EPS Est 12 week change	-1.03%	0.43%	-0.09%	7.51%	57.92%	1.72%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	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	C
Growth Score	C
Momentum Score	F
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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