

Mondelez International (MDLZ)

\$55.60 (As of 03/02/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Mondelez's shares have outpaced the industry in the past three months. The stock received a boost when the company reported fourth-quarter 2019, wherein balanced pricing and volume/mix drove organic revenues. Also, the company's focus on brand building through innovation and acquisitions has been yielding. Evidently, the buyout of minority stakes in Perfect Snacks along with investments in Hu Master and Uplift Foods, indicates the company's efforts to boost healthy offerings. Also, Mondelez is bolstering presence in the emerging regions. Notably, management expects organic net revenues to grow more than 3% for 2020. However, adjusted gross margin declined 10 bps due to plant transition hurdles in Brazil, inflation in Argentina and weak powdered beverages in the quarter. Also, it grapples with adverse currency movements.

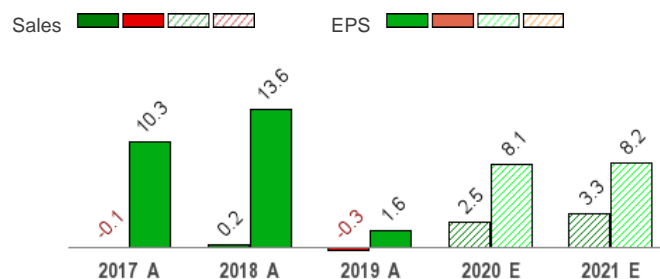
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.96 - \$46.37
20 Day Average Volume (sh)	7,071,040
Market Cap	\$79.7 B
YTD Price Change	0.9%
Beta	0.76
Dividend / Div Yld	\$1.14 / 2.1%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 25% (190 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/05/2020
Earnings ESP	-0.7%
P/E TTM	22.5
P/E F1	20.8
PEG F1	2.7
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,870 E	6,435 E	6,829 E	7,430 E	27,395 E
2020	6,603 E	6,173 E	6,592 E	7,189 E	26,517 E
2019	6,538 A	6,062 A	6,355 A	6,913 A	25,868 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.72 E	\$0.69 E	\$0.73 E	\$0.76 E	\$2.89 E
2020	\$0.66 E	\$0.62 E	\$0.67 E	\$0.71 E	\$2.67 E
2019	\$0.65 A	\$0.57 A	\$0.64 A	\$0.61 A	\$2.47 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 03/02/2020. The reports text is as of 03/03/2020.

Overview

Headquartered in Deerfield, IL, **Mondelez International, Inc.** (MDLZ) is one of the leading global snacks company. Mondelez was previously known as Kraft Foods, Inc. and changed its name to Mondelez following the spin-off of its North American grocery business into a separate independent company, Kraft Foods Group, Inc. in Oct 2012. Kraft has, however, merged with H.J. Heinz Company to form The Kraft Heinz Company.

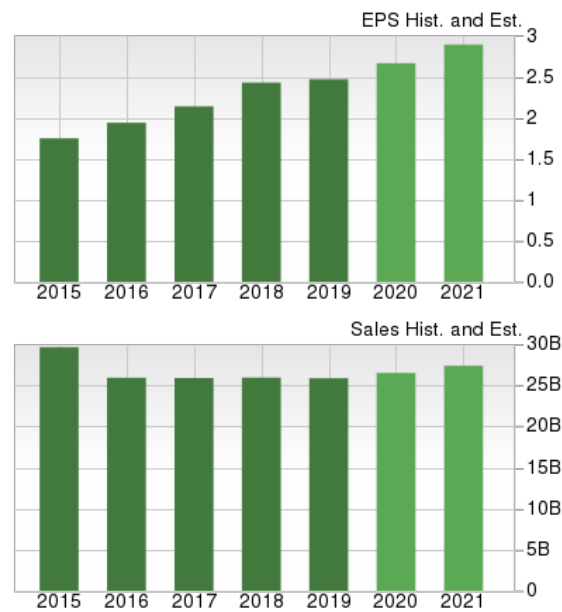
Mondelez makes snack food products. Its product categories include chocolates; biscuits (cookies, crackers and salted snacks); gum and candy; beverages and cheese & grocery products.

In July 2018, the company completed the acquisition of 13.8% ownership in the Keurig Dr Pepper business. Prior to this, in June 2018, Mondelez concluded the buyout of Tate's Bake Shop. Also, in January 2018, the company teamed up with Post Consumer Brands, a business unit of Post Holdings, to create two new cookie-inspired breakfast cereals. Additionally, Mondelez's two major acquisitions of the LU biscuit business in 2007 and Cadbury in 2010 significantly expanded its routes-to-market around the globe, especially in Europe and emerging markets.

On the other hand, In July 2017, the company completed the sale of a major part of its grocery business in Australia and New Zealand to Bega Cheese Limited. In April 2017, the company completed the sale of several manufacturing facilities in France and the sale of several local confectionery brands.

In Mar 2016, Mondelez exchanged of a portion of its investment in JDE for an interest in Keurig Green Mountain. As a result, the company holds a 26.5% equity interest in JDE. In Jul 2015, Mondelez contributed its global coffee businesses to a new company, Jacobs Douwe Egberts (JDE), in which it holds an equity interest.

Mondelez has operations in more than 80 countries outside the United States and offers its products in 165 countries. Mondelez's operating segments include — **Latin America** (11.7% of 2019 sales); **Asia, Middle East & Africa or AMEA** (22.3% of 2019 sales); **Europe** (38.5% of 2019 sales) and **North America** (27.5% of 2019 sales).



Reasons To Buy:

▲ **Solid Pricing & Organic Sales:** Mondelez's strategic pricing initiatives have been yielding results. In fact, during the fourth quarter of 2019, balanced pricing and volume/mix led the company's organic revenues to rise 4.1%. Organic revenues in the quarter rose in emerging and developed markets. We note that the company's organic sales have been rising for a while. During the first, second and the third quarter of 2019, organic sales went up 3.7%, 4.6%, and 4.2%, respectively. A strong brand position combined with yielding strategies has been boosting organic sales. Encouragingly, management expects organic net revenue growth of more than 3% for 2020.

Mondelez's strategic pricing efforts have been fueling organic sales. It is also progressing well with saving initiatives.

Management continues to strike the right balance between volume and profit through disciplined pricing. Such upsides combined with other profitable growth efforts have boosted investors' optimism in the stock. Notably, the stock gained 4.3% in the last three months compared with the industry's decline of 9.6%.

▲ **Accretive Acquisitions and Partnerships:** Mondelez has always been keen on expanding its business through acquisitions. To this end, it recently inked a deal to buy majority interest in Give & Go, which is a pioneer in fully-finished sweet baked goods. In previous developments, the company made investments in Hu Master Holdings and Uplift Foods (in April 2019) as part of the SnackFutures platform,. In July last year, it acquired minority stakes in Perfect Snacks. These investments indicate management's efforts to boost healthy offerings. In fact, management earlier stated that Mondelez plans to offer more good-for-you snacks and expects 50% of its product portfolio to comprise 'well-being' items by 2020. Also, in January 2018, the company teamed up with Post Consumer Brands, a business unit of Post Holdings, to create two new cookie-inspired breakfast cereals.

Further, some notable buyouts of the company include 13.8% ownership in the Keurig Dr Pepper business (in July 2018), acquisition of Tate's Bake Shop (June 2018), LU biscuit business in 2007 and Cadbury in 2010. These buyouts significantly expanded Mondelez's routes-to-market around the globe, especially in emerging markets. The company's focus on undertaking acquisitions to gain scale in its categories and distribution capabilities bode well.

▲ **Focus on Innovation and Brand Building:** The company is refreshing its brand portfolio through product innovation and extending its brands to newer geographies and platforms. In 2018, the company introduced an innovation platform — Joy Fills. This platform, which was launched in Europe, is designed to meet growth across brands such as Oreo, Cadbury and Milka. Also, the introduction of Lickables in India has been doing well. Further, the company's continued product innovation under the SnackFutures platform bodes well. In fact, management plans to focus on enhancing the snacking portfolio, an area which growing rapidly across the globe.

Speaking of brand building efforts, Mondelez has been increasing investments in in-store execution and advertising to support the Power Brands and innovation funded by cost savings. Such investments are helping the company to witness growth in two of its most globally renowned brands — Cadbury Dairy Milk and Oreo.

The company focuses on boosting brand popularity through advertising campaigns across different media platforms. Additionally, to strengthen its brand presence across digital media, Mondelez had earlier formed a global strategic partnership with Facebook, Google and Amazon in the United States. Further, the company is proving its presence in high-growth channels like e-commerce, discounters, convenience stores and traditional trade. Earlier, Mondelez had also inked an e-commerce partnership with China's leading online and mobile commerce company, Alibaba Group.

▲ **Strong Emerging Market Presence:** The company generates around 70% of its revenues from outside the United States with around 40% coming from the emerging markets including Brazil, China, India, Mexico, Russia and Southeast Asia. Food/beverage companies are increasingly investing in developing and emerging markets like India, China and Brazil which boast significant growth potential due to relatively low per-capita consumption. Another reason is the burgeoning middle-class population with rising income levels which in turn is increasing the demand for convenience food and beverages. Mondelez is also been making investments in other emerging regions such as Africa, Mexico, Russia and Southeast Asia, which are yielding results. Management explores brand growth opportunities in these regions based on local consumer preferences.

During the fourth quarter, revenues from emerging markets rose 4% to \$2,538 million, while the same increased 8.2% on an organic basis. Further, strong growth in developed markets like Europe and North America in discounters and biscuits channels, respectively are likely to set the base for the company's future growth in emerging markets such as China, India and Russia.

▲ **Savings & Restructuring Plans On-Track:** Mondelez has been undertaking some major steps to enhance savings, which aid fueling margins and cash flow. Moreover, such savings are being invested in brand-building endeavors. We note that management is on track with savings initiatives such as zero-based budgeting. It is also on track with eliminating other unnecessary costs from supply chain, such as waste reduction in the U.S. network. Management expects to keep gaining from such well-chalked saving plans.

Further, the company is on track with its restructuring program, called the Simplify to Grow Program. This program is aimed at reducing Mondelez's operating costs that includes supply chain and overhead costs.

Reasons To Sell:

▼ **Currency Headwinds:** Due to exposure in international markets, Mondelez is prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the United States. An increase in price may have an adverse impact on the demand for the products.

Adverse currency translations remains a concern for Mondelez's business.

Adverse currency movements have been hurting the company's performance for a while.

Notably, during the fourth quarter of 2019, adverse impacts from currency rates dented the company's top line. Going ahead, management anticipates currency fluctuations to negatively impact net revenues in 2020 by nearly 1%.

▼ **Strained Margins:** During fourth-quarter 2019, adjusted gross margin contracted 10% due to plant transition hurdles in Brazil, increased inflation in Argentina and weakness in powdered beverages. Also, the company's adjusted operating margin fell 30 bps to 15.9% thanks to lower adjusted gross margin and higher overhead expenses. Persistence of such headwinds is a threat to profitability, if not cushioned by adequate revenue growth.

▼ **Macroeconomic Headwinds:** Mondelez is dependent on consumer discretionary spending environment which is affected by the general macroeconomic conditions, consumer confidence, employment levels and other macro factors. Despite improvement in economic growth, consumers are increasing their spending only modestly. High healthcare costs and tightened credit availability remain concerns for consumer discretionary spending in the United States.

▼ **Stiff Competition:** The food and snacking industry is highly competitive. Mondelez's principal competitors are major international food, snack and beverage companies that operate in multiple geographic areas and numerous local and regional companies. Competitor and customer pressures restrict the company to increase prices in response to commodity and other cost hikes. Moreover, the rapid emergence of new distribution channels, such as e-commerce, may create consumer price deflation and affect retail customer relationships.

Last Earnings Report

Mondelez's Q4 Earnings & Revenues Beat Estimates

Mondelez reported fourth-quarter 2019 results, wherein both earnings and sales surpassed the Zacks Consensus Estimate for the second and fifth successive time, respectively. Also, sales increased year over year on favorable pricing and volumes, though adverse currency movements were a hurdle. These factors along with management's guidance for 2020 seem to have lifted investors' confidence.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	1.13%
EPS Surprise	1.67%
Quarterly EPS	0.61
Annual EPS (TTM)	2.47

Q4 Performance

Adjusted earnings of 61 cents per share surpassed the Zacks Consensus Estimate by a penny. On a constant-currency (cc) basis, adjusted earnings remained flat year over year. Improved sales seem to have been offset by lower adjusted margins.

Net revenues advanced 2.1% year over year to \$6,913 million and surpassed the Zacks Consensus Estimate of \$6,836 million. The upside was backed by organic net revenues, which grew 4.1% on favorable pricing and volume/mix in emerging and developed markets. However, currency headwinds were a deterrent.

Revenues from emerging markets rose 4% to \$2,538 million, while the same increased 8.2% on an organic basis. Revenues from developed markets inched up 1% to \$4,375 million, while the same grew 1.8% on an organic basis.

Regional-wise, revenues in Latin America dropped 2.4% year over year but climbed 2%, 1.6% and 4.6% in Asia, the Middle East & Africa; Europe; and North America, respectively. Nonetheless, on an organic basis, revenues increased 7.6%, 4.9%, 3.3% and 3.1% in Latin America; Asia, the Middle East & Africa; Europe; and North America, respectively.

Adjusted gross profit increased \$119 million (on a cc basis). However, adjusted gross margin contracted 10 basis points, owing to plant transition hurdles in Brazil, increased inflation in Argentina and weakness in powdered beverages.

The company's adjusted operating income rose \$52 million (at cc) from the prior-year quarter. However, adjusted operating margin fell 30 bps to 15.9% due to lower adjusted gross margin and elevated overhead expenses.

Other Financials

Mondelez ended the quarter with cash and cash equivalents of \$1,291 million, long-term debt of \$14,207 million and total equity of \$27,351 million.

During 2019, the company generated cash from operating activities of roughly \$4 billion. Free cash flow was \$3 billion during the year. The company expects 2020 free cash flow of approximately \$3 billion.

During the quarter, the company distributed around \$750 million to shareholders through share repurchases and cash dividends. In 2019, Mondelez returned nearly \$3 billion to shareholders.

Guidance

Mondelez is pleased with its 2019 performance. The company is on track with growth strategies, which include expansion across core markets and channels; investments in local and global brands; enhancing the supply chain; and undertaking marketing and sales initiatives.

For 2020, the company expects organic net revenue growth of more than 3%. Management anticipates currency fluctuations to negatively impact net revenues by nearly 1%.

Currency-neutral adjusted earnings per share are likely to grow in high-single digits.

Recent News

Mondelez's Acquisition Spree Continues With Give & Go's Deal - Feb 25, 2020

Mondelez International inked a deal to buy majority interest in a North America-based company — Give & Go. Being a pioneer in fully-finished sweet baked goods, Give & Go offers brownies, cupcakes, pastries and muffins as well as owns well-known brands like two-bite and Create-A-Treat.

The inclusion of the above-mentioned products and brands is likely to strengthen Mondelez's portfolio. Moreover, Give & Go's fast-growing in-store bakery channel is likely to help Mondelez further expand its snacking business. Per the deal, the to-be-acquired company will operate as a separate business from its existing headquarters in Toronto, Ontario. Moreover, Mondelez will provide customer and channel insights along with procurement and marketing resources to aid growth. As of now, the deal is subject to customary closing conditions and likely to be concluded in the second quarter of 2020.

Mondelez's Strategic Plans Underway, Long-Term Goals Intact - Feb 19, 2020

Mondelez International shed light on its ongoing strategic initiatives, focused on delivering sustainable earnings and sales growth. Further, management reaffirmed its 2020 guidance and long-term goals at its 2020 Consumer Analyst Group of New York (CAGNY) Conference.

The company noted that within a year of its strategic plan launch, it recorded solid top and bottom-line growth along with enhanced free cash flow. Further, it transformed from a centralized decision-making structure to a local-first approach with an increased focus on volume-driven growth. Apart from this, Mondelez has been working toward investments in global and local brands. The company has been building a consumer-centric and growth-focused organization.

Further, management reiterated its guidance for 2020 as well as long-term growth goals. In this regard, the company continues to anticipate organic net sales growth of more than 3%. Adjusted earnings are still expected to grow in high-single digits at constant currency. Free cash flow is anticipated to be more than \$3 billion. Further, dividend growth is expected to surpass bottom-line growth.

Mondelez' Board Approves Quarterly Dividend - Dec 5, 2019

Mondelez International's board has approved a quarterly dividend of 28.5 cents per share which is payable on Jan 14, 2020 as of shareholder's record as on Dec 31, 2019.

Valuation

Mondelez shares are up 0.9% in the year-to-date period and 18.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 12.3% in the year-to-date period, while the Zacks Consumer Staples sector has dipped 10.8%. Over the past year, the Zacks sub-industry is up 1.7%, while the sector dipped 1%.

The S&P 500 index is down 8.3% in the year-to-date period and 4.9% in the past year.

The stock is currently trading at 20.56X forward 12-month earnings, which compares to 16.42X for the Zacks sub-industry, 17.59X for the Zacks sector and 16.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.5X and as low as 14.8X, with a 5-year median of 20.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$59 price target reflects 21.82X forward 12-month earnings.

The table below shows summary valuation data for MDLZ

Valuation Multiples - MDLZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.56	16.42	17.59	16.86
	5-Year High	24.5	22.9	22.38	19.34
	5-Year Low	14.8	14.82	16.66	15.18
	5-Year Median	20.37	19.23	19.68	17.44
P/S F12M	Current	2.99	1.53	8.96	3.12
	5-Year High	3.21	2.05	11.13	3.43
	5-Year Low	1.79	1.44	8.09	2.54
	5-Year Median	2.49	1.81	9.88	3.01
EV/EBITDA F12M	Current	16.21	13.32	34.41	12.27
	5-Year High	17.98	16.59	37.23	14.13
	5-Year Low	12.22	11.67	29.4	9.08
	5-Year Median	15.25	13.28	33.61	10.82

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 255)



Top Peers

Conagra Brands Inc. (CAG)	Neutral
Campbell Soup Company (CPB)	Neutral
General Mills, Inc. (GIS)	Neutral
The Hain Celestial Group, Inc. (HAIN)	Neutral
Hershey Company (The) (HSY)	Neutral
The J. M. Smucker Company (SJM)	Neutral
Kellogg Company (K)	Underperform
The Kraft Heinz Company (KHC)	Underperform

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MDLZ Neutral	X Industry	S&P 500	K Underperform	KHC Underperform	SJM Neutral
VGM Score	C	-	-	D	B	B
Market Cap	79.67 B	3.98 B	21.48 B	21.60 B	31.84 B	12.17 B
# of Analysts	8	3	13	8	8	7
Dividend Yield	2.05%	0.13%	2.07%	3.61%	6.14%	3.30%
Value Score	C	-	-	C	C	B
Cash/Price	0.02	0.04	0.04	0.02	0.08	0.01
EV/EBITDA	18.79	12.13	12.57	13.91	12.27	11.57
PEG Ratio	2.74	2.24	1.84	3.76	1.86	3.26
Price/Book (P/B)	2.92	2.39	2.88	6.52	0.62	1.49
Price/Cash Flow (P/CF)	17.17	12.10	11.58	11.77	7.62	8.17
P/E (F1)	20.82	15.24	16.87	16.55	11.16	13.05
Price/Sales (P/S)	3.08	1.18	2.34	1.59	1.27	1.60
Earnings Yield	4.80%	6.42%	5.91%	6.05%	8.98%	7.66%
Debt/Equity	0.53	0.62	0.70	2.30	0.55	0.58
Cash Flow (\$/share)	3.24	2.75	6.94	5.36	3.42	13.07
Growth Score	C	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	9.02%	5.54%	10.85%	3.41%	NA	9.69%
Proj. EPS Growth (F1/F0)	8.00%	7.25%	6.79%	-3.17%	-18.07%	-1.33%
Curr. Cash Flow Growth	4.99%	2.50%	5.92%	-9.43%	-15.53%	1.65%
Hist. Cash Flow Growth (3-5 yrs)	2.73%	6.52%	8.38%	-0.49%	11.14%	11.97%
Current Ratio	0.50	1.58	1.23	0.72	1.03	0.77
Debt/Capital	34.82%	38.43%	42.53%	69.71%	35.28%	36.60%
Net Margin	14.96%	3.62%	11.57%	7.07%	7.75%	NA
Return on Equity	13.56%	10.86%	16.80%	41.84%	5.93%	11.70%
Sales/Assets	0.40	1.15	0.54	0.75	0.24	0.45
Proj. Sales Growth (F1/F0)	2.51%	2.01%	4.07%	-0.93%	-2.23%	NA
Momentum Score	D	-	-	D	C	D
Daily Price Chg	5.30%	-0.90%	-1.44%	4.42%	5.25%	3.64%
1 Week Price Chg	-10.13%	0.00%	-0.94%	-7.71%	-9.13%	-7.11%
4 Week Price Chg	-3.39%	-11.19%	-10.98%	-8.28%	-10.57%	2.47%
12 Week Price Chg	2.64%	-8.41%	-7.84%	-5.11%	-18.35%	0.20%
52 Week Price Chg	18.32%	2.29%	1.20%	15.62%	-21.55%	4.10%
20 Day Average Volume	7,071,040	161,723	2,169,477	2,588,850	11,908,996	0
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.32%
(F1) EPS Est 4 week change	-0.24%	0.00%	-0.09%	-4.34%	-8.48%	0.32%
(F1) EPS Est 12 week change	0.25%	-0.52%	-0.24%	-4.22%	-10.59%	0.42%
(Q1) EPS Est Mthly Chg	-0.68%	-2.41%	-0.72%	-11.43%	-15.88%	-4.35%

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	C
VGM Score	C

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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