

Mondelez International (MDLZ)

\$55.16 (As of 01/17/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Shares of Mondelez have outpaced the industry in the past year. The company is steadily gaining from its pricing endeavors. In fact, during the third quarter of 2019, balanced pricing and volume/mix helped organic revenues rise 4.2%. Additionally, it is progressing well with saving efforts. Mondelez also focuses on brand building through innovation and acquisitions. It recently completed the buyout of minority stakes in Perfect Snacks. This, along with investments in Hu Master and Uplift Foods, indicate the company's efforts to boost healthy offerings. It is also bolstering presence in the emerging regions. Such upsides encouraged management to raise outlook for 2019. However, the company grapples with adverse currency movements, which are likely to impact top and bottom lines in 2019.

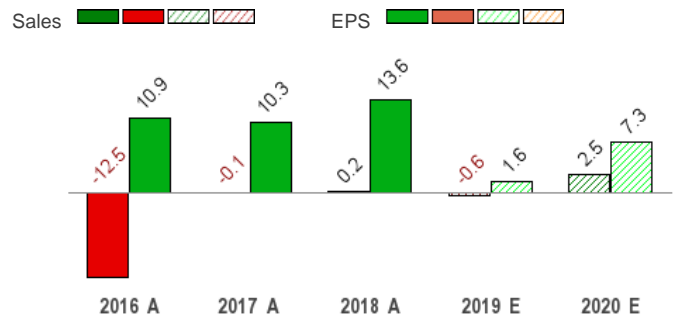
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.72 - \$42.53
20 Day Average Volume (sh)	5,225,132
Market Cap	\$79.4 B
YTD Price Change	0.2%
Beta	0.75
Dividend / Div Yld	\$1.14 / 2.1%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 38% (96 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.9%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	01/29/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	6,603 E	6,170 E	6,527 E	7,080 E	26,419 E
2019	6,538 A	6,062 A	6,355 A	6,843 E	25,771 E
2018	6,765 A	6,112 A	6,288 A	6,773 A	25,938 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.67 E	\$0.63 E	\$0.66 E	\$0.69 E	\$2.65 E
2019	\$0.65 A	\$0.57 A	\$0.64 A	\$0.60 E	\$2.47 E
2018	\$0.62 A	\$0.56 A	\$0.62 A	\$0.63 A	\$2.43 A

*Quarterly figures may not add up to annual.

P/E TTM	22.2
P/E F1	20.8
PEG F1	2.7
P/S TTM	3.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/20/2020.

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.

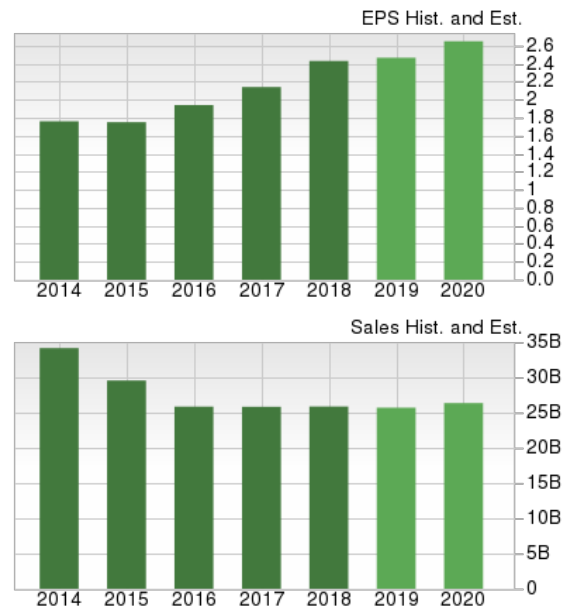
Mondelez makes snack food products. Its product categories include chocolates; biscuits (cookies, crackers and salted snacks); gum and candy, beverages and cheese & grocery products.

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** (12.3% of 2018 sales); **Asia, Middle East & Africa or AMEA** (22.1% of 2018 sales); **Europe** (39% of 2018 sales) and **North America** (26.5% of 2018 sales).



Reasons To Buy:

▲ **Solid Pricing & Organic Sales:** Mondelez's strategic pricing initiatives have been yielding results. In fact, during the third quarter of 2019, balanced pricing and volume/mix led the company's organic revenues to rise 4.2%. 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 and second quarters of 2019, organic sales went up 3.7% and 4.6%, respectively. A strong brand position combined with yielding strategies has been boosting organic sales. Encouragingly, management raised its outlook for 2019 and now expects organic net revenue growth of more than 3.5% compared with more than 3% growth guided earlier.

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 29.8% in the last year compared with the industry's rise of 15.2%.

▲ **Accretive Acquisitions and Partnerships:** Mondelez has always been keen on expanding its business through acquisitions. As part of the SnackFutures platform, the company made investments in Hu Master Holdings and Uplift Foods. Recently, it acquired minority stakes in Perfect Snacks. These investments indicate management's efforts to boost healthy offerings. In fact, 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.

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 plans to continue making acquisitions to gain scale in its categories and distribution capabilities.

▲ **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. Last year, the company introduced an innovation platform – Joy Fills. This platform, which was launched in Europe, is designed to cater growth across brands such as Oreo, Cadbury and Milka. Also, the introduction of Lickables in India has been doing well. Further, management plans to continue innovating products under the SnackFutures platform. In fact, management plans to focus on enhancing the snacking portfolio, an area which is 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. In the United States, fresh investments have been fueling the Nutter Butter brand.

The company focuses on boosting brand popularity through advertising campaigns across different media platforms. Additionally, to strengthen its brand presence across digital media, Mondelez has formed a global strategic partnership with Facebook, Google and Amazon in the United States. Further, the company is improving its presence in high-growth channels like e-commerce, discounters, convenience stores and traditional trade. Mondelez 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 75% 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 third quarter, revenues from emerging markets rose 1.6% to \$2,363 million, while the same increased 6.6% on an organic basis.

▲ **Savings Plans On-Track:** Mondelez has been undertaking some major steps to enhance productivity savings, that 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.

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.

During the third quarter of 2019, adverse impacts from currency rates dented the company's top line. Also, in the first and second quarters, adverse currency movements were a drag on the top line. Going ahead, management anticipates currency fluctuations to negatively impact net revenues in 2019 by nearly 4%. Currency is also likely to weigh on adjusted earnings in 2019 by nearly 14 cents.

- ▼ **Strained Margins:** During third-quarter 2019, adjusted gross profit edged down 0.8% to \$2,525 million. Adjusted gross margin contracted 100 basis points, owing to plant transition hurdles in Brazil and increased inflation in Argentina. Also, the company's adjusted operating income declined 0.3% to \$1,065 million and adjusted operating margin fell 30 bps to 16.8% due to lower gross margin. 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.
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Last Earnings Report

Mondelez Lifts View on Q3 Earnings & Revenue Beat

Quarter Ending **09/2019**

Mondelez International reported third-quarter 2019 results, wherein both earnings and sales improved year over year and surpassed estimates. Adjusted earnings of 64 cents per share surpassed the Zacks Consensus Estimate of 61 cents. On a constant-currency (cc) basis, adjusted earnings improved 9.7% year over year, courtesy of operating gains, share repurchases, reduced taxes and increased joint venture income.

Report Date	Oct 29, 2019
Sales Surprise	0.68%
EPS Surprise	4.92%
Quarterly EPS	0.64
Annual EPS (TTM)	2.49

Net revenues advanced 1.1% year over year to \$6,355 million and surpassed the Zacks Consensus Estimate of \$6,312 million. The upside was backed by organic net revenues, which grew 4.2% on favorable pricing and volume/mix in emerging and developed markets. However, currency headwinds were a deterrent.

Revenues from emerging markets rose 1.6% to \$2,363 million, while the same increased 6.6% on an organic basis. Revenues from developed markets inched up 0.7% to \$3,992 million, while the same grew 2.9% on an organic basis.

Regionally, revenues in Latin America dropped 4.9% year over year but climbed 1.5%, 0.7% and 3.9% in Asia, Middle East & Africa; Europe; and North America, respectively. Nonetheless, on an organic basis, revenues increased a respective 4.3%, 5.3%, 5% and 2.5% in Latin America; Asia, Middle East & Africa; Europe; and North America.

Adjusted gross profit edged down 0.8% to \$2,525 million (up 2.6% on at cc). Adjusted gross margin contracted 100 basis points, owing to plant transition hurdles in Brazil and increased inflation in Argentina.

Also, the company's adjusted operating income declined 0.3% to \$1,065 million (up 4.3% on at cc) from the prior-year quarter. Further, adjusted operating margin fell 30 bps to 16.8% due to lower gross margin, which was somewhat compensated by SG&A cost leverage.

Other Financials

Mondelez ended the quarter with cash and cash equivalents of \$1,537 million, long-term debt of \$12,593 million and total equity of \$26,874 million.

During the first three quarters of 2019, the company generated cash from operating activities of \$1,882 million. Free cash flow was nearly \$1.2 billion year to date. The company continues to expect 2019 free cash flow of approximately \$2.8 billion.

During the quarter, the company distributed around \$600 million to shareholders through share repurchases and cash dividends. Year to date, Mondelez returned nearly \$2.3 billion to shareholders.

Guidance

Mondelez is pleased with its quarterly 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, among others.

Given a strong year-to-date performance, management raised its outlook for 2019. The company now expects organic net revenue growth of more than 3.5% compared with more than 3% growth guided earlier. Management anticipates currency fluctuations to negatively impact net revenues by nearly 4%.

Currency-neutral adjusted earnings per share are likely to grow 5-7%, with currency headwinds expected to have a 14-cent impact. The company earlier guided currency-neutral adjusted earnings per share to improve about 5%.

Recent News

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 29.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 15.2% and 20.2% over the past year, respectively.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 20.73X forward 12-month earnings, which compares to 18.46X for the Zacks sub-industry, 19.97X for the Zacks sector and 19.2X 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 20.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$58 price target reflects 21.8X 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	20.73	18.46	19.97	19.2
	5-Year High	24.5	22.9	22.38	19.34
	5-Year Low	14.8	14.82	16.66	15.17
	5-Year Median	20.33	19.19	19.76	17.44
P/S F12M	Current	3	1.76	10.26	3.57
	5-Year High	3.09	2.05	11.13	3.57
	5-Year Low	1.73	1.44	8.09	2.54
	5-Year Median	2.48	1.81	9.87	3
EV/EBITDA F12M	Current	16.74	14.08	34.37	12.66
	5-Year High	17.19	16.59	37.22	12.66
	5-Year Low	12.15	11.67	29.37	9.08
	5-Year Median	15	13.26	33.52	10.78

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 254)



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
Kellogg Company (K)	Neutral
The Kraft Heinz Company (KHC)	Neutral
The J. M. Smucker Company (SJM)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MDLZ Neutral	X Industry	S&P 500	K Neutral	KHC Neutral	SJM Neutral
VGM Score	C	-	-	B	B	B
Market Cap	79.42 B	4.41 B	24.65 B	24.18 B	37.89 B	12.13 B
# of Analysts	7	3.5	13	6	7	6
Dividend Yield	2.07%	0.11%	1.73%	3.22%	5.16%	3.31%
Value Score	C	-	-	C	C	B
Cash/Price	0.02	0.03	0.04	0.02	0.06	0.00
EV/EBITDA	21.78	13.69	14.11	14.90	-6.78	11.55
PEG Ratio	2.74	2.27	2.08	2.93	2.02	5.22
Price/Book (P/B)	2.96	2.96	3.39	7.35	0.73	1.50
Price/Cash Flow (P/CF)	18.09	13.39	13.81	12.03	7.65	8.14
P/E (F1)	20.82	18.83	19.19	17.60	12.10	13.05
Price/Sales (P/S)	3.09	1.39	2.69	1.77	1.50	1.59
Earnings Yield	4.80%	5.02%	5.21%	5.69%	8.25%	7.66%
Debt/Equity	0.48	0.62	0.72	2.45	0.54	0.58
Cash Flow (\$/share)	3.05	2.72	6.94	5.89	4.06	13.07
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	8.90%	5.08%	10.56%	3.43%	NA	10.38%
Proj. EPS Growth (F1/F0)	7.42%	7.85%	7.57%	3.70%	-8.70%	-1.67%
Curr. Cash Flow Growth	8.30%	3.82%	14.73%	6.86%	-2.47%	1.65%
Hist. Cash Flow Growth (3-5 yrs)	3.23%	7.12%	9.00%	1.17%	20.68%	11.97%
Current Ratio	0.50	1.57	1.24	0.80	1.00	0.72
Debt/Capital	32.64%	38.38%	42.99%	71.00%	35.18%	36.74%
Net Margin	15.42%	2.79%	11.14%	5.35%	-42.85%	7.30%
Return on Equity	13.93%	11.60%	17.16%	42.47%	6.23%	11.60%
Sales/Assets	0.40	1.17	0.55	0.76	0.25	0.46
Proj. Sales Growth (F1/F0)	2.51%	2.51%	4.16%	-2.03%	-1.28%	-3.12%
Momentum Score	B	-	-	A	C	B
Daily Price Chg	-0.05%	0.00%	0.27%	0.20%	-2.21%	1.33%
1 Week Price Chg	0.02%	0.00%	0.39%	1.87%	-1.73%	2.04%
4 Week Price Chg	0.02%	1.51%	2.95%	6.14%	-2.73%	1.80%
12 Week Price Chg	4.00%	6.36%	7.76%	14.95%	9.07%	-1.83%
52 Week Price Chg	28.16%	16.69%	22.29%	19.57%	-34.09%	2.12%
20 Day Average Volume	5,225,132	105,008	1,536,375	1,467,302	5,019,021	737,172
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.11%	0.00%
(F1) EPS Est 4 week change	-0.27%	0.00%	0.00%	0.07%	-1.64%	0.00%
(F1) EPS Est 12 week change	-1.03%	-0.92%	-0.40%	-0.81%	-2.35%	-2.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	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	B
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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