

Mondelez International (MDLZ)

\$58.36 (As of 08/26/20)

Price Target (6-12 Months): **\$61.00**

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: B

Momentum: F

Summary

Mondelez's shares have outperformed the industry on a year-to-date basis. The company has been benefitting from its efficient pricing strategy, which is driving organic revenues. This was witnessed in Mondelez's second-quarter 2020 results, wherein the top and the bottom line surpassed the Zacks Consensus Estimate. Also earnings increased year over year. Notably, balanced pricing aided organic revenues. Further, the company's focus on brand building through innovation and acquisitions bodes well. Apart from this, Mondelez is on track with its robust cost-saving efforts. The company has also been bolstering presence in the emerging regions. However, adjusted gross margin contracted 90 bps, due to higher coronavirus-induced expenses and raw material costs. Also, adverse currency rates and volume/mix were a deterrent in the quarter.

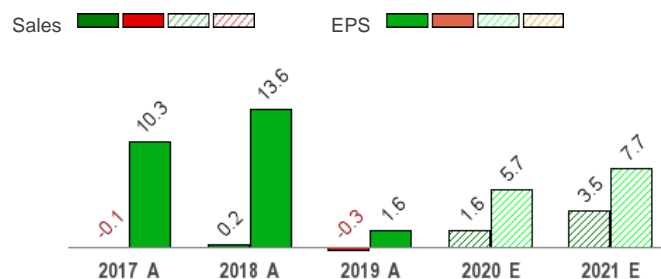
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.96 - \$41.19
20 Day Average Volume (sh)	5,440,220
Market Cap	\$83.4 B
YTD Price Change	6.0%
Beta	0.62
Dividend / Div Yld	\$1.26 / 2.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 46% (117 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.5%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	2.1%
Expected Report Date	11/03/2020
Earnings ESP	-0.1%
P/E TTM	22.7
P/E F1	22.4
PEG F1	2.9
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,880 E	6,250 E	6,677 E	7,376 E	27,213 E
2020	6,707 A	5,911 A	6,486 E	7,132 E	26,285 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	\$0.71 E	\$0.65 E	\$0.71 E	\$0.75 E	\$2.81 E
2020	\$0.69 A	\$0.63 A	\$0.63 E	\$0.67 E	\$2.61 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 08/26/2020. The reports text is as of 08/27/2020.

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.

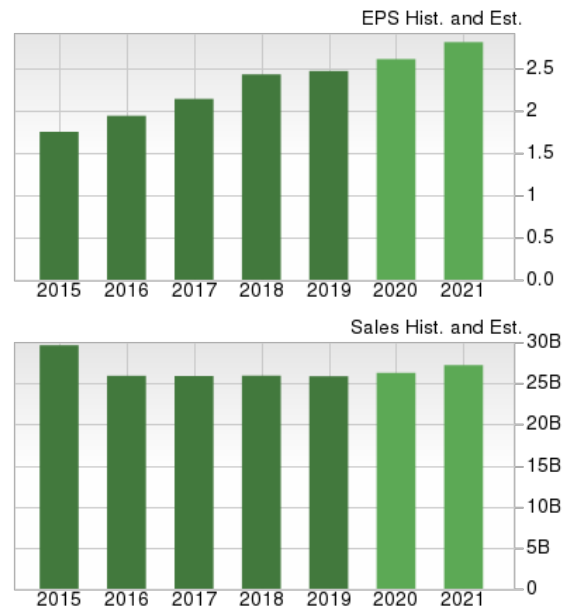
Mondelez makes snack food products. Its product categories include chocolates; biscuits (cookies, crackers and salted snacks); gum and candy; beverages and cheese & grocery products.

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 second quarter of 2020, favorable pricing drove the company's organic revenues. Organic net revenues inched up 0.7% year over year during the quarter. Notably, organic net revenue growth in the developed markets was higher compared with the pre-pandemic level. Although, organic net sales in the emerging markets declined year over year, the metric improved sequentially. A strong brand position combined with yielding strategies has been boosting organic sales for the past few quarters. During the first quarter of 2020 and the fourth quarter of 2019, organic sales went up 6.4% and 4.1%, respectively. The stock has gained 7.1% year to date compared with the industry's growth of 0.2%.

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

▲ **Accretive Acquisitions and Partnerships:** Mondelez has always been keen on expanding its business through acquisitions. To this end, it acquired majority interest in Give & Go (in April 2020), 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 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 KeurigDr 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. 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 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 key brands. In fact, management expects to invest significantly in working media during the second half of 2020 to enhance its brands.

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. Also, the company is proving its presence in high-growth channels like e-commerce, discounters, convenience stores and traditional trade.

▲ **Dividend on Track:** At a juncture where companies are suspending dividends to maintain financial flexibility, Mondelez recently announced an 11% hike from previous dividend taking it to 31.5 cents per share. Notably, Mondelez has a dividend payout of 44.4%, dividend yield of 2.1% and free cash flow yield of 5.7%. With an annual free cash flow return on investment of 8.8%, ahead of the industry's 7.2%; the dividend payment is likely to be sustainable.

▲ **Strong Emerging Market Presence:** The company generates significant amount of its revenues from outside the United States with around 32% 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 aiding results. Management explores brand growth opportunities in these regions based on local consumer preferences.

Although organic net sales in the emerging markets declined year over year during the second quarter of 2020 owing to coronavirus-induced restrictions, the metric improved sequentially. Further, strong growth in developed markets like Europe and North America are likely to set the base for the company's future growth in emerging markets.

▲ **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. 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. During its second-quarter 2020 earnings call, management stated that it expects to remove 25% of SKUs with an aim to simplify supply chain, lower costs as well as inventory. Also, the company expects to improve its revenues and enhance its customer service by this move.

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. We believe that, Mondelez is likely 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 movements have been hurting the company's performance for a while. During the second quarter of 2020, adverse impacts from currency rates dented the company's top line. Moreover, management expects unfavorable currency rates to reduce net sales by nearly 3% and lower adjusted earnings by 5 cents per share in 2020. Clearly, volatility in exchange rates is a threat to the company's performance.
- ▼ **Strained Margins:** During second-quarter 2020, adjusted gross profit margin contracted 90 basis points (bps) to 39.7% due to higher coronavirus-induced expenses and raw material costs. Also, unfavorable currency rates and volume/mix were a deterrent. The company's adjusted operating margin fell 80 bps to 15.9% due to lower adjusted gross profit margin, adverse impacts from acquisition as well as unfavorable volume/mix. Persistence of such headwinds is a threat to profitability, if not cushioned by adequate revenue growth.
- ▼ **Debt Analysis:** Mondelez's long-term debt (including operating lease liabilities) amounted to \$16,483 million as of Jun 30, 2020, up 19.6% on a sequential basis. The company's debt-to-capitalization ratio of 0.40 at the end of second-quarter 2020 stood higher than the previous quarter's ratio of 0.38. Moreover, the company's times interest earned ratio of 6.3 has fallen from 6.6 reported in the previous quarter. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. As of the end of the second quarter 2020 (Jun 30, 2020), Mondelez had current debt of \$3,700 million, while its cash and cash equivalents stood at \$1,602 million.
- ▼ **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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Volatile currency rates and reduced margins dented Mondelez's second-quarter 2020 performance.

Last Earnings Report

Mondelez Beats Q2 Earnings Estimates, Hikes Dividend

Mondelez reported second-quarter 2020 results, with earnings and sales surpassing the Zacks Consensus Estimate for the fourth and seventh successive time, respectively. Moreover, the bottom line increased year over year. Also, organic sales increased on a year-over-year basis.

Moreover, the company witnessed growth in developed markets along with robust market share gains across all major markets. Further, performances in the emerging markets improved in the second quarter as coronavirus-induced restrictions are being lifted.

Given the current situation related to the coronavirus outbreak and its unpredictable impact on economic activities, Mondelez refrained from providing any update on its full-year 2020 guidance. That said, management expects unfavorable currency rates to reduce net sales by nearly 3% and lower adjusted earnings by 5 cents per share in 2020.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	0.67%
EPS Surprise	12.50%
Quarterly EPS	0.63
Annual EPS (TTM)	2.57

Q2 Performance

Adjusted earnings came in at 63 cents per share, up 12.5% on year over year. The metric surpassed the Zacks Consensus Estimate of 56 cents. On a constant-currency (cc) basis, adjusted earnings increased 16.1% year over year. The upside can be attributed to reduced taxes, higher benefit from plan non-service income and lower interest expense. Also, higher equity method investment earnings and fall in the number of shares outstanding contributed to the bottom line.

Net revenues declined 2.5% year over year to \$5,911 million, thanks to unfavorable foreign currency rates as well as adverse impacts of divestiture. Organic net revenues inched up 0.7% year over year. The upside was backed by improved pricing. Notably, organic net revenue growth in the developed markets was higher compared with the pre-pandemic level. Although, organic net sales in the emerging markets declined year over year, the metric improved sequentially. Also, favorable impact from acquisitions contributed to the upside. Further, sales surpassed the Zacks Consensus Estimate of \$5,874 million.

Revenues from emerging markets declined 15.6% to \$1,917 million, while the same fell 5.1% on an organic basis. Revenues from developed markets increased 5.4% to \$3,994 million, while the same rose 4.1% on an organic basis.

Regional-wise, revenues in Latin America, Europe, and Asia, Middle East & Africa dropped 30.7%, 4.9% and 8.5% year over year, respectively. Nevertheless, the same moved up 17.3% North America. On an organic basis, revenues declined 11.3%, 3.1% and 1.2% in Latin America; Asia, Middle East & Africa and Europe, respectively. Nevertheless, the metric improved 11% in North America.

Adjusted gross profit declined \$9 million at cc. Also, adjusted gross margin contracted 90 basis points (bps) to 39.7% due to higher coronavirus-induced expenses and raw material costs. Also, unfavorable currency rates and volume/mix were a deterrent.

The company's adjusted operating income fell \$38 million (at cc) from the prior-year quarter's figure. Also, adjusted operating margin fell 80 bps to 15.9% due to lower adjusted gross profit margin, adverse impacts from acquisition as well as unfavorable volume/mix.

Other Financials

Mondelez ended the quarter with cash and cash equivalents of \$1,602 million, long-term debt of \$16,004 million and total equity of \$26,018 million.

At the end of the quarter, the company generated cash from operating activities of nearly \$1,558 million. Free cash flow was \$1,113 million during the same time period.

During the quarter, the company distributed around \$410 million to shareholders through dividend payouts. Also, management declared quarterly dividend of 31.5 cents per share, up 11% from the previous dividend. This will be payable on Oct 14, 2020 to shareholders of record as on Sep 30.

Moreover, management had decided to suspend its share buyback plans due to the coronavirus outbreak in March.

Recent News

Mondelez Bolsters Portfolio With Give & Co.'s Inclusion – Apr 2, 2020

Mondelez concluded the previously announced buyout of a considerable majority stake in Give & Co. The buyout was first announced on Feb 25. Per the deal, the acquired company will operate as a separate business from its existing headquarters in Toronto, Ontario, Canada. Moreover, Mondelez will provide customer and channel insights along with procurement and marketing resources to aid growth.

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, which already includes global and local brands — Oreo, Cadbury, Milka and belVita along with Tate's and Perfect Snacks.

Valuation

Mondelez shares are up 7.1% in the year-to-date period and 8.6% over the trailing 12-month period. Stocks in the Zacks sub-industry gained 0.2% in the year-to-date period, while the Zacks Consumer Staples sector has declined 4.4%. Over the past year, the Zacks sub-industry is up 9.8%, while the sector dipped 1.4%.

The S&P 500 index is up 8.2% in the year-to-date period and 21.8% in the past year.

The stock is currently trading at 21.29X forward 12-month earnings, which compares to 19.42X for the Zacks sub-industry, 20.26X for the Zacks sector and 23.12X for the S&P 500 index.

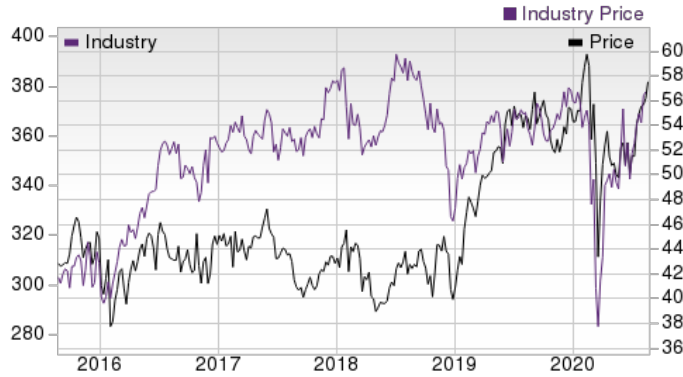
Over the past five years, the stock has traded as high as 23.78X and as low as 14.8X, with a 5-year median of 20.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$61 price target reflects 22.25X forward 12-month earnings.

The table below shows summary valuation data for MDLZ

Valuation Multiples - MDLZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.29	19.42	20.26	23.12
	5-Year High	23.78	22.9	22.37	23.12
	5-Year Low	14.8	14.82	16.63	15.25
	5-Year Median	20.12	18.57	19.58	17.58
P/S F12M	Current	3.1	1.73	9.6	3.77
	5-Year High	3.21	2.05	11.15	3.77
	5-Year Low	2.04	1.41	8.1	2.53
	5-Year Median	2.53	1.75	9.89	3.05
EV/EBITDA F12M	Current	17.53	13.2	35.47	12.89
	5-Year High	17.98	14.65	37.49	14.22
	5-Year Low	12.22	10.97	25.79	9.05
	5-Year Median	15.48	13.2	33.83	11.02

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 46% (117 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
The Hain Celestial Group, Inc. (HAIN)	Outperform	1
The Kraft Heinz Company (KHC)	Outperform	3
Conagra Brands Inc. (CAG)	Neutral	3
Campbell Soup Company (CPB)	Neutral	2
General Mills, Inc. (GIS)	Neutral	3
Hershey Company The (HSY)	Neutral	3
Kellogg Company (K)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MDLZ	X Industry	S&P 500	K	KHC	SJM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	A	B
Market Cap	83.36 B	3.81 B	23.69 B	24.13 B	43.17 B	13.89 B
# of Analysts	9	3	14	7	7	7
Dividend Yield	1.95%	0.00%	1.65%	3.24%	4.53%	2.96%
Value Score	C	-	-	B	B	C
Cash/Price	0.02	0.08	0.07	0.05	0.07	0.03
EV/EBITDA	19.85	13.16	13.37	14.64	14.53	11.00
PEG Ratio	2.95	4.14	3.04	2.97	2.26	6.73
Price/Book (P/B)	3.19	2.36	3.17	7.09	0.88	1.66
Price/Cash Flow (P/CF)	18.03	12.54	12.78	13.12	10.32	9.60
P/E (F1)	22.47	19.42	21.63	17.82	13.57	14.55
Price/Sales (P/S)	3.22	1.40	2.50	1.79	1.70	1.74
Earnings Yield	4.47%	4.92%	4.44%	5.61%	7.36%	6.88%
Debt/Equity	0.63	0.57	0.75	2.19	0.57	0.57
Cash Flow (\$/share)	3.24	2.81	6.94	5.36	3.42	12.68
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	9.37%	5.50%	10.41%	3.36%	-0.23%	8.82%
Proj. EPS Growth (F1/F0)	5.67%	3.22%	-4.92%	0.22%	-8.67%	-4.47%
Curr. Cash Flow Growth	4.99%	4.39%	5.22%	-9.43%	-15.53%	-2.78%
Hist. Cash Flow Growth (3-5 yrs)	2.73%	6.08%	8.50%	-0.49%	11.14%	11.88%
Current Ratio	0.55	1.62	1.34	0.77	1.09	0.96
Debt/Capital	38.71%	36.40%	44.18%	68.66%	36.37%	36.44%
Net Margin	13.31%	2.97%	10.25%	8.09%	-0.76%	10.78%
Return on Equity	14.02%	9.81%	14.66%	43.36%	6.68%	13.28%
Sales/Assets	0.40	1.02	0.50	0.75	0.25	0.48
Proj. Sales Growth (F1/F0)	1.61%	0.00%	-1.45%	0.57%	2.57%	-1.93%
Momentum Score	F	-	-	D	B	C
Daily Price Chg	0.81%	0.00%	-0.18%	1.28%	-0.17%	0.81%
1 Week Price Chg	2.41%	0.00%	-1.45%	-0.30%	-2.89%	-1.65%
4 Week Price Chg	2.76%	2.76%	2.10%	-0.79%	-0.73%	10.17%
12 Week Price Chg	12.04%	8.24%	3.61%	7.57%	12.77%	6.23%
52 Week Price Chg	6.34%	4.25%	3.61%	12.59%	40.29%	16.63%
20 Day Average Volume	5,440,220	160,989	1,883,291	1,783,487	5,589,556	972,729
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	2.87%
(F1) EPS Est 4 week change	2.05%	0.07%	0.93%	3.28%	7.95%	2.63%
(F1) EPS Est 12 week change	2.55%	2.55%	3.41%	3.86%	8.79%	-0.95%
(Q1) EPS Est Mthly Chg	-1.50%	0.00%	0.00%	-8.03%	1.34%	0.31%

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	B
Momentum Score	F
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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