

Post Holdings (POST)

\$108.29 (As of 01/08/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Shares of Post Holdings have risen and outperformed the industry in the past three months. The stock received a boost when it reported fourth-quarter fiscal 2019 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate. Moreover, the bottom line grew year over year, somewhat fueled by reduced interest expenses. This and lower debt level bode well. Apart from this, solid performance in the foodservice segment, driven by robust demand in refrigerated potato products is likely to provide some cushion to the top line in the near future. Well, Post Holdings has been grappling with declining sales for the past few quarters. Additionally, it remains exposed to headwinds arising from competition.

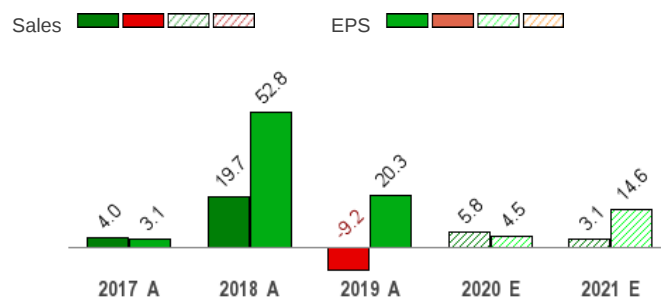
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$113.73 - \$91.14
20 Day Average Volume (sh)	442,312
Market Cap	\$7.7 B
YTD Price Change	-0.7%
Beta	0.29
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 40% (101 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.9%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	21.8
P/E F1	21.1
PEG F1	3.0
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,536 E	1,498 E	1,568 E	1,594 E	6,197 E
2020	1,467 E	1,454 E	1,520 E	1,547 E	6,008 E
2019	1,411 A	1,388 A	1,439 A	1,443 A	5,681 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.36 E	\$1.54 E	\$1.56 E	\$5.88 E
2020	\$1.16 E	\$1.21 E	\$1.36 E	\$1.40 E	\$5.13 E
2019	\$1.11 A	\$1.28 A	\$1.19 A	\$1.39 A	\$4.91 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 01/08/2020. The reports text is as of 01/09/2020.

Overview

Based in Missouri, Post Holdings is a consumer-packaged goods holding company, which is involved in the production of center-of-the-store, refrigerated, foodservice, food ingredient and convenient nutrition product categories. It also engages in the private brand food category.

The company comprises five segments, which are as follows:

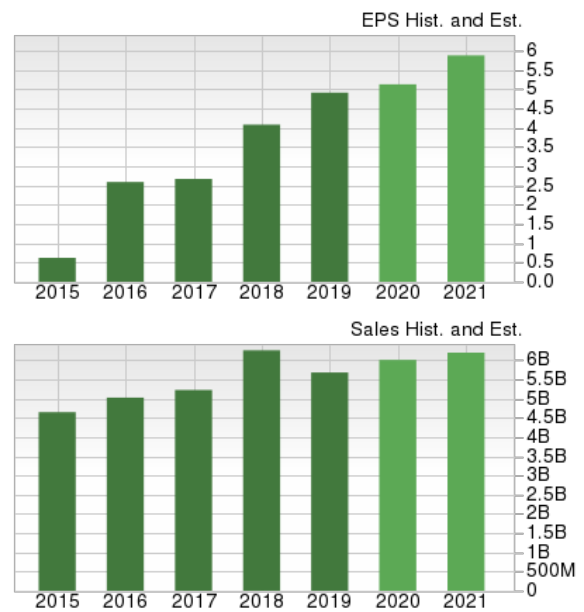
Post Consumer Brands (33% of FY19 sales) consists private label ready-to-eat (RTE) cereal products. Some notable brands of RTE include Honey Bunches of Oats, Pebbles, Oreo O's, Hostess Donettes, Hostess Honey Bun, Great Grains, Grape-Nuts, Post Shredded Wheat, Oh's, Honeycomb, Golden Crisp, Post Raisin Bran, Alpha-Bits, Shreddies, Malt-O-Meal-branded bagged cereal and Mom's Best.

Weetabix (7% of FY19 sales) comprises businesses of Weetabix Limited and its direct subsidiaries. It produces and distributes branded and private label RTE cereal, hot cereals, and other cereal-based food products, breakfast drinks and muesli mostly outside North America. The distribution part takes place through third-party services.

Foodservice (29% of FY19 Sales) engages in the production and distribution of egg and potato products in the foodservice and food ingredient space. It has a wide portfolio of egg products under brands, including Papetti's and Abbotsford Farms, and potato products under several brands, including Simply Potatoes.

Refrigerated Retail (16% of FY19 sales) produces and distributes refrigerated retail products such as egg, cheese and sausage under the brands namely, Michael Foods, Willamette, NPE and Bob Evans. The segment's refrigerated side dish, potato and sausage products are available under the Bob Evans, Bob Evans Farms, Simply Potatoes, Pineland Farms, Owens and Diner's Choice brands.

Active Nutrition (15% of FY19 sales) offers products in the convenient nutrition category, including ready-to-drink ("RTD") protein shakes, other RTD beverages, powders, nutrition bars and supplements. It also markets and distributes other RTD beverages, powders, nutrition bars and supplements in the convenient nutrition category.



Reasons To Buy:

- ▲ **Solid Q4 Earnings Boost Stock:** Post Holdings reported fourth-quarter fiscal 2019 results, wherein both top and bottom lines surpassed the Zacks Consensus Estimate. Also, the bottom line grew year over year. Notably, adjusted earnings of \$1.39 per share surpassed the Zacks Consensus Estimate of \$1.07. Also, the figure increased 14.9% from the year-ago quarter. We note that shares of the company have gained 9.2% in the past three months, outperforming the industry's growth of 3.1%.
- ▲ **Robust Performance in Foodservice to Aid the Top Line:** The company's foodservice segment has been performing well for the past few quarters. Sales in this segment increased 4.5% to \$417.6 million in the fourth quarter of fiscal 2019. Moreover, volumes grew 3.7% on growth in egg and potato volumes. Solid demand in refrigerated potato products also contributed to the foodservice segment. Prior to this, sales in the segment rose 3.3%, 2.3% and 10.6% in the third, second and first quarters, respectively. Continuation of the trend is likely to provide some cushion to the top line.
- ▲ **Focus on Acquisitions:** The company has been actively pursuing acquisitions to expand the customer base. In this regard, it is on track with the buyout of private label ready-to-eat cereal business of TreeHouse Foods and is awaiting government clearance for the same. Prior to this, the company's acquisition of Latimer Newco 2 Limited in July 2017 led to the addition of Weetabix North America and Weetabix Limited to its portfolio. The latter has now been operating as one of the five company segments. In April 2017, Post Holdings acquired Bob Evans, which strengthened its position in the foodservice and refrigerated retail channels. Some other notable buyouts included National Pasteurized Eggs, Inc in October 2016 and MOM Brands Company in May 2015.
- ▲ **Lower Interest Expenses Support the Bottom Line:** The company has been witnessing lower interest expenses for quite some time now. Interest expenses fell 7.3% to \$91.1 million in the reported quarter, following declines of 13.5% and 13.4% and 34.4% in the third, second and first quarters of fiscal 2019, respectively. Moving ahead, such trends may contribute to the company's bottom line.
- ▲ **Reduced Debt a Bright Spot:** Debt level is a measure of financial stability for a company. In this regard, Post Holdings has been gaining from declining trend in debt. The company's debt of \$7.1 billion dropped 2.3% in the fourth quarter of fiscal 2019. The metric fell 12.5% each in the third and second quarters of fiscal 2019, following a decrease of 12.4% in the first quarter.

The company is gaining from strategic buyouts and solid performance in foodservice segment. Also, reduced cost bodes well.

Reasons To Sell:

- ▼ **Dismal Y/Y Sales Trend:** The company has been witnessing declining sales in the past few quarters. During the fourth quarter, the metric was \$1,442.8 million, reflecting a decrease of 11.5% from \$1,629.9 million reported in the prior-year quarter. Prior to this, sales fell 10.5%, 12.5% and 1.5% in the third, second and first quarters of fiscal 2019, respectively. The absence of private brands segment sales, also known as 8th Avenue, has been hurting the top line for a while now. We note that the segment has been separately established as a company on Oct 1, 2018.
- ▼ **Stock Seems Overvalued:** Considering price-to-earnings (P/E) ratio, Post Holdings looks overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 21.79, which is below its median level of 22.82 and the high level of 25.48 scaled in a year. Meanwhile, the trailing 12-month P/E ratio for the industry and S&P are currently pegged at 19 and 20.23, respectively.
- ▼ **Stiff Competition:** Post Holdings faces intense competition from other companies belonging to the consumer food and beverage and convenient nutrition category. It competes with these players on grounds of pricing strategies, quality of products, brand recognition, nutritional value, promotional activities and customer services. The company's inability to stay afloat amid such competition may result in the loss of market share and adversely impact its business.

Continued sluggishness in year over year sales remain a matter of concern. Also, intense competition acts as a deterrent.

Last Earnings Report

Post Holdings Earnings and Revenue Beat Q4 Estimates

Post Holdings reported fourth-quarter fiscal 2019 results, wherein both top and bottom lines surpassed the Zacks Consensus Estimate. Also, the bottom line grew year over year while sales declined.

During the quarter, adjusted earnings were \$1.39 per share, beating the Zacks Consensus Estimate of \$1.07 in the fourth quarter. Also, the figure increased 14.9% from the year-ago quarter.

Sales registered \$1,442.8 million, reflecting a decline of 11.5% from \$1,629.9 million reported in the prior-year quarter. However, the metric surpassed the consensus mark of 1,428 million.

Further, gross profit of \$452.2 million decreased 4.8% from \$474.9 million in the year-ago quarter. Meanwhile, gross margin expanded 220 basis points (bps) to 31.3% in the quarter under review.

Moreover, the company witnessed SG&A expenses of \$245.5 million, up 2.3% from \$239.9 reported in the year-ago quarter. SG&A as a percentage of sales expanded 230 bps to 17% in the reported quarter.

Post Holdings generated operating profit of \$102.6 million in the reported quarter. This depicts rise of 52% from \$67.5 million in the year-ago quarter. Its Private Brands business contributed \$17 million to operating profit.

Adjusted EBITDA was \$303.6 million as compared to \$320.6 million in the prior-year quarter.

Segment Details

Post Consumer Brands: Sales in the segment grew 3.5% year over year to \$487.4 million in the quarter. Volumes rose 1.6%, driven by growth in private label and Pebbles that was partially offset by declines in Canada, Honey Bunches of Oats, certain licensed products and adult classic brands.

Weetabix: Segment sales were \$104.8 million, tumbling 2.6% from the prior-year period. Decline in volumes to the tune of 8.5% and currency headwinds of roughly 550 bps hurt the segment to some extent.

Foodservice: Sales jumped 4.5% to \$417.6 million in the quarter under review. Moreover, volumes grew 3.7% on growth in egg and potato volumes.

Refrigerated Retail: Sales in the segment were \$219.1 million, up 2% from the year-ago quarter. Further, volume hiked 3.1%, owing to side dish volume growth.

Active Nutrition: Sales of \$214.5 million declined 2.5%, with volume falling 4.3% in the reported quarter. This dismal performance can be attributable to the early timing of RTD shakes that led to sales headwind of nearly \$15 million.

Business Development

Post Holdings initiated IPO of its Active Nutrition segment, which is also known as BellRing Brands Inc, starting from Oct 17, 2019.

Financial Details

Cash provided by operating activities was 688 million in the fourth quarter of fiscal 2020. Further, the company's board approved a new share repurchase program of \$400 million on Sep 4, 2019, for two years. During the quarter, Post Holdings bought back 2.4 million shares worth \$242.1 million. Following this, it has \$338.5 million remaining under its new share-repurchase plan at the end of the fourth quarter.

Outlook

Management issued view for fiscal 2020, which includes 100% contribution from BellRing but excludes contribution from 8th Avenue and the acquisition of TreeHouse Foods' private label RTE cereal business. For fiscal 2020, adjusted EBITDA is expected to be \$1.22-\$1.27 billion. Most of this is projected to be generated in the second half of fiscal 2020. Also, the company anticipates capital expenditure of \$240-\$260 million.

Moving on, adjusted EBITDA for 8th Avenue is envisioned to be \$100-\$105 million. Meanwhile, BellRing estimates adjusted EBITDA of \$192-\$202 million, which includes \$7 million in costs related to IPO. For fiscal 2020, BellRing sales are expected to be \$1-\$1.5 billion.

Quarter Ending **09/2019**

Report Date	Nov 21, 2019
Sales Surprise	1.01%
EPS Surprise	29.91%
Quarterly EPS	1.39
Annual EPS (TTM)	4.97

Valuation

Post Holdings' shares are up 10.2% in the trailing 12-month period. Over the past year, the Zacks sub-industry and Zacks Consumer Staples sector are up 12.9% and 17.6%, respectively.

The S&P 500 index is up 24.3% in the past year.

The stock is currently trading at 20.31X forward 12-month earnings, which compares to 18.25X for the Zacks sub-industry, 19.76X for the Zacks sector and 18.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 192.7X and as low as 13.86X, with a 5-year median of 26.38X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$115 price target reflects 21.57X forward 12-month earnings.

The table below shows summary valuation data for POST

Valuation Multiples - POST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.31	18.25	19.76	18.82
	5-Year High	192.7	22.9	22.39	19.34
	5-Year Low	13.86	14.82	16.65	15.17
	5-Year Median	26.38	19.19	19.76	17.44
P/S F12M	Current	1.26	1.73	9.83	3.49
	5-Year High	1.38	2.05	11.03	3.49
	5-Year Low	0.4	1.44	8.02	2.54
	5-Year Median	0.98	1.81	9.78	3
EV/EBITDA TTM	Current	10.04	17.56	39.85	11.99
	5-Year High	16.82	23.69	44.63	12.86
	5-Year Low	7.59	14.02	31.32	8.48
	5-Year Median	11.08	15.62	37.92	10.67

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 254)



Top Peers

Lamb Weston Holdings Inc. (LW)	Outperform
Tate & Lyle PLC (TATYY)	Outperform
B&G Foods, Inc. (BGS)	Neutral
Flowers Foods, Inc. (FLO)	Neutral
General Mills, Inc. (GIS)	Neutral
Ingredion Incorporated (INGR)	Neutral
McCormick & Company, Incorporated (MKC)	Neutral
TreeHouse Foods, Inc. (THS)	Underperform

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	POST Neutral	X Industry	S&P 500	FLO Neutral	MKC Neutral	THS Underperform
VGM Score	B	-	-	B	C	A
Market Cap	7.66 B	4.32 B	23.84 B	4.51 B	22.25 B	2.62 B
# of Analysts	3	3	13	2	4	5
Dividend Yield	0.00%	0.11%	1.79%	3.57%	1.48%	0.00%
Value Score	C	-	-	B	D	A
Cash/Price	0.14	0.04	0.04	0.00	0.01	0.02
EV/EBITDA	15.87	14.14	13.88	15.19	24.31	17.01
PEG Ratio	3.01	2.30	2.02	NA	3.77	1.78
Price/Book (P/B)	2.69	2.90	3.33	3.49	6.39	1.45
Price/Cash Flow (P/CF)	10.57	13.09	13.76	13.13	27.21	6.83
P/E (F1)	21.04	18.40	18.76	21.10	30.19	17.65
Price/Sales (P/S)	1.35	1.35	2.63	1.10	4.15	0.52
Earnings Yield	4.74%	5.26%	5.32%	4.74%	3.32%	5.66%
Debt/Equity	2.41	0.62	0.72	0.95	1.10	1.29
Cash Flow (\$/share)	10.24	2.72	6.94	1.62	6.15	6.83
Growth Score	A	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	37.17%	5.08%	10.56%	0.55%	11.05%	-10.27%
Proj. EPS Growth (F1/F0)	4.41%	8.40%	7.46%	5.21%	3.21%	11.16%
Curr. Cash Flow Growth	5.71%	3.82%	14.83%	2.49%	17.31%	-61.72%
Hist. Cash Flow Growth (3-5 yrs)	34.52%	7.12%	9.00%	1.95%	9.17%	10.92%
Current Ratio	2.65	1.65	1.23	1.08	0.78	1.49
Debt/Capital	70.64%	38.35%	42.99%	48.63%	52.47%	56.27%
Net Margin	2.19%	2.79%	11.08%	4.48%	13.12%	-7.65%
Return on Equity	11.90%	11.60%	17.16%	15.74%	21.63%	5.80%
Sales/Assets	0.49	1.17	0.55	1.31	0.52	0.92
Proj. Sales Growth (F1/F0)	5.76%	2.51%	4.16%	2.46%	2.40%	1.17%
Momentum Score	D	-	-	D	F	A
Daily Price Chg	0.33%	0.00%	0.39%	-0.75%	-0.53%	-0.06%
1 Week Price Chg	0.20%	-0.64%	-0.30%	-1.79%	-0.96%	0.10%
4 Week Price Chg	1.73%	0.48%	2.38%	-1.02%	-1.92%	-6.68%
12 Week Price Chg	10.47%	4.19%	6.40%	-1.80%	4.33%	-12.26%
52 Week Price Chg	13.16%	17.67%	22.97%	13.59%	19.31%	-15.21%
20 Day Average Volume	442,312	141,767	1,610,101	1,052,422	603,355	407,190
(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%	-1.94%	-1.80%	0.00%
(F1) EPS Est 12 week change	-4.75%	-0.77%	-0.50%	-1.94%	-1.86%	-7.06%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.47%	-2.70%	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	A
Momentum Score	D
VGM Score	B

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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