

Pilgrims Pride(PPC)

\$32.18 (As of 01/02/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Pilgrim's Pride's shares have outpaced the industry in the last six months. The company is gaining from solid Prepared Foods business. Volumes in the segment grew double digits in the United States in the third quarter of 2019 on investments in R&D and marketing of new products. The company continues to gain from strategic acquisitions and expansion in the fresh foods space, courtesy of solid consumer response. Earnings and sales grew year over year, backed by improved U.S. and Mexican market conditions. Moreover, cost of sales dropped and aided the gross margin. However, soft sales from Europe and escalated input costs in the region were headwinds, though Key Customer strategy is helping the company mitigate the cost challenges. Stiff competition and rising demand for plant-based protein alternatives are also concerns.

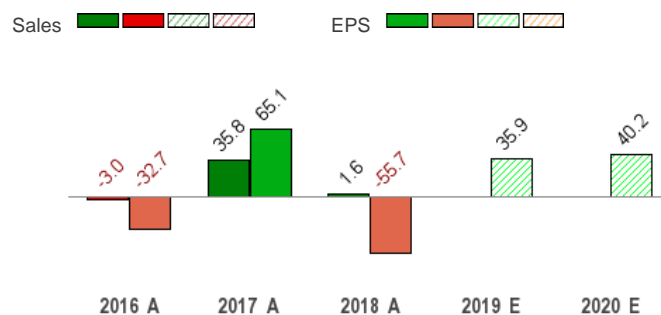
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.67 - \$15.24
20 Day Average Volume (sh)	617,386
Market Cap	\$8.0 B
YTD Price Change	-1.6%
Beta	0.74
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Meat Products
Zacks Industry Rank	Top 7% (17 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.7%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	6.1%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	20.4
P/E F1	13.2
PEG F1	0.7
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					
2019	2,725 A	2,843 A	2,778 A		
2018	2,747 A	2,837 A	2,698 A	2,657 A	10,938 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$2.44 E
2019	\$0.35 A	\$0.69 A	\$0.45 A	\$0.22 E	\$1.74 E
2018	\$0.53 A	\$0.53 A	\$0.21 A	\$0.09 A	\$1.28 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 01/02/2020. The reports text is as of 01/03/2020.

Overview

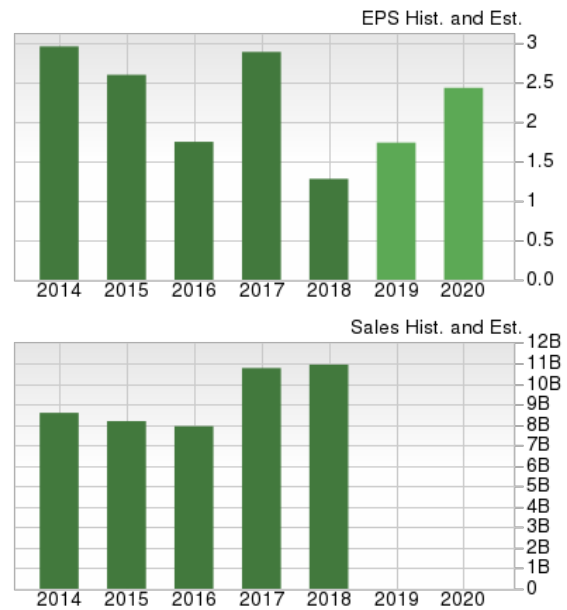
Headquartered in Greeley, CO, Pilgrim's Pride Corporation (PPC) is engaged in the processing, production, marketing and distribution of frozen, fresh as well as value-added chicken products.

The company offers its services in the United States, Mexico, France, the Netherlands, Puerto Rico and Mexico through a number of distributors, retailers and food service operators. Since its inception in 1946, Pilgrim's Pride has expanded its business on the back of acquisitions like Green Acre Foods, Inc., WLR Foods, Inc., Gold Kist, GNP Company and Moy Park. Currently, the company operates as a subsidiary of JBS USA Holdings, Inc., which owns 78.3% of its common stock. Additionally, Pilgrim's Pride acquired 100% of the membership interests of JFC LLC and its subsidiaries (together, "GNP") from Maschhoff Family Foods, LLC on Jan 6, 2017. Apart from these, it bought 100% of the issued and outstanding shares of Moy Park on Sep 8, 2017.

Working with a large number of family firms across Mexico and the U.S., Pilgrim's Pride offers high-quality wholesome products to customers. Major product categories offered by the company are fresh, fully cooked, ready-to-cook and individual frozen chicken. Notably, its fresh chicken products, namely, refrigerated (nonfrozen) whole or cut-up chicken, pre-marinated or non-marinated, and pre-packaged case-ready chicken, are being sold to foodservice and retail markets. Also, Pilgrim's Pride offers prepared chicken products, which can further be classified into portion-controlled breast fillets, tenderloins and strips, delicatessen products, salads, formed nuggets and patties, and bone-in chicken parts. These products are available in either refrigerated or frozen, and may be fully cooked, partially cooked or raw.

Pilgrim's Pride serves its clients through a single business segment. As a seller and producer of chicken items, it either produces or buys chicken for resale in the United States, the United Kingdom, Europe and Mexico. Supported by its Sustainable Progress system, the company ensures optimal usage of variable natural resources.

Pilgrim's Pride operates in three reportable business segments that include the United States (63.9% of 2018 sales), the United Kingdom and Europe (19.2% of 2018 sales) and Mexico (12.8% of 2018 sales), respectively.



Reasons To Buy:

▲ **Growth in Prepared Foods:** The Company's Prepared Foods business is growing under brands such as Premium Pilgrims and Del Dia. These brands are gaining from favorable consumer acceptance. Volumes in this category grew double digits in the United States during the third quarter of 2019 on continued investments in R&D and sales as well as marketing of new product innovations. Additionally, the company is rolling out a number of new technologies to become first digital chicken company. Strength in this business and focus on expansions have helped the company's shares to gain 19.3% in six months compared with the industry's growth of 9.6%.

Growth in Prepared Foods business, focus on Key Customer strategy and strategic business acquisitions are aiding Pilgrim's Pride's growth.

▲ **Strategic Growth Initiatives:** Pilgrim's Pride's customer centric approach has propelled it to come up with unique offerings that provide competitive advantages. In fact, the company's focus on key customers is a pathway for refining its portfolio and creating competitive advantages over its peers. Notably, revenues from key customers have more than doubled over the last eight years. Apart from this, the company has been steadily augmenting marketing support of its brands, as they expand and enter new regions. Additionally, the company resorts to frequent supply chain improvements to enhance efficiency and reduce costs. In this respect, the company has been progressing well with developing automation technology for its processing plants. Introduction of such advanced technology is expected to increase efficiency and aid in combating labor availability issues. The company's dedicated efforts, including zero-base budgeting and positive impacts from acquisitions, are expected to create synergies..

▲ **Expanding in the Fresh Food Space:** Pilgrim's Pride consistently strives to improve portfolio and strengthen competitive position through innovations. In this respect, the company has been expanding in the fresh food offerings space. In fact, the launch of fresh chicken products under premium Pilgrim's brand has been receiving favorable consumer response. Further, the company is on track to expand gluten-free products. Moreover, the company expects organic products, including No-Antibiotics-Ever products, to account for nearly 40% of U.S. fresh portfolio in 2019. Additionally, the company has been expanding breast meat portioning capabilities to mitigate its exposure to volatility of pure commodity market.

▲ **Accretive Acquisitions:** Pilgrim's Pride has been gradually strengthening its competency on the back of business acquisitions. Recently, the company announced the acquisition of a West Midlands food manufacturer, Tulip, to further strengthen its position as a leading global player by expanding prepared foods portfolio and brands. Earlier, Pilgrim's Pride acquired GNP Company (January 2017) that will continue to bolster the company's sales in the upcoming quarters. Additionally, the Moy Park acquisition (September 2017) is anticipated to boost the company's European business. Going forward, management plans to continue strengthening its relationship with these businesses.

Risks

- **Stock Looks Stretched:** Considering the price-to-earnings (P/E) ratio, Pilgrim's Pride looks overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 20.37X, which is above its median level of 20.31X but below the high level of 24X scaled in a year. Meanwhile, the trailing 12-month P/E ratio for the industry is currently at 19.82X.
- **Softness in European Operations:** Pilgrim's Pride's sales from European operations declined 1.7% during the third quarter of 2019, following a 4.8% drop in the preceding quarter. Further, the company continued to witness higher input costs in the region.

However, Pilgrim's Pride is undertaking initiatives to mitigate the input-cost challenges by integrating them in the customer pricing models.

- **Substitute Meat emerges as a Viable Threat:** The medical community is promoting plant-based protein products over the meat-based ones, on account of health risks. The increased demand for plant-based protein will dampen revenues and profitability of meat-product producers like Pilgrim's Pride.
 - **Stiff Competition:** Pilgrim's Pride operates in an excessively competitive chicken space in United States. The company mainly competes with other vertically integrated companies in the same space. It mainly competes on the basis of price, product development, quality, brand recognition, customer service and product range.
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Last Earnings Report

Pilgrim's Pride Beats on Q3 Earnings, Revenues Up Y/Y

Pilgrim's Pride Corporation reported strong third-quarter 2019 results, with the bottom line beating the Zacks Consensus Estimate. Moreover, earnings and revenues improved year over year. The quarterly results were backed by improved results in the United States and Mexico.

Q3 in Detail

Quarterly adjusted earnings of 45 cents per share improved substantially from adjusted earnings of 21 cents reported in the year-ago quarter. Further, the bottom line surpassed the Zacks Consensus Estimate of 43 cents. Improved sales and margins supported bottom-line results.

In the reported quarter, Pilgrim's Pride generated net sales of \$2,778 million, up 3% year over year. Results were backed by higher sales in the United States and Mexico.

Revenues from the U.S. operations amounted to \$1,931.7 million, up 3.6% year over year. The upside was driven by strong U.S portfolio gains, backed by its differentiated strategy. Results also benefited year over year from significant growth in the U.S. pure commodity market. Further, the demand for the non-commodity segment remained strong. Additionally, the company's progress on its Key Customer Strategy is aiding growth.

Mexican operations generated revenues of \$328.8 million in the reported quarter, up 7.2% year over year. Results gained from growth in the Prepared Foods category and branded products. Prepared Foods rose in double digits, driven by robust performance of premium Pilgrim's and Del Dia brands.

Revenues from European operations declined 1.7% year over year to \$517.5 million as it continued to witness higher input costs in the region. However, the third-quarter results for the segment marked an improvement from the prior quarter's decline of 4.8%. The improvement was driven by the company's efforts to mitigate the input-cost challenges by better integration of these costs in the customer pricing models. Robust operational efficiencies further aided the performance.

Overall cost of sales of Pilgrim's Pride in the reported quarter declined 1.3% year over year to \$2,495.8 million. Moreover, higher sales and lower cost of sales drove gross profit, which rose 66.3% year over year to \$282.2 million. Also, gross margin rose 3.9 percentage points to 10.2%.

Further, adjusted EBITDA was \$258.4 million, up 65.6% year over year. Adjusted EBITDA margin of 12.3% in the reported quarter reflected rise of 3.51 percentage points.

Other Financial Details

Pilgrim's Pride exited the quarter with cash and cash equivalents of approximately \$338.4 million, long-term debt (less current maturities) of \$2,279.9 million, and total shareholders' equity of \$2,330.1 million. Further, the company generated \$535.5 million as cash from operating activities in the first nine months of 2019.

Growth Efforts on Track

The Company is committed toward boosting operations in the United States through its Key Customer strategy as well as augmenting capacities and capabilities. In the Mexico region, it continues to engage in evolving the portfolio with product diversification, high-value products and margin expansion. Also, in the European region, management is adhering to operational improvements, pricing adjustments and Key Customer strategy to mitigate the adversities, stemming from higher input costs. Further, the company recently acquired Tulip Ltd, which is likely to strengthen its position in the U.K. market.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	NA
EPS Surprise	4.65%
Quarterly EPS	0.45
Annual EPS (TTM)	1.58

Recent News

Pilgrim's Pride Completed Acquisition of Tulip Limited – Oct 15, 2019

Pilgrim's Pride completed the deal to acquire Tulip Limited, a leading prepared foods supplier in the United Kingdom. The transaction, worth nearly \$354 million, is likely to help the company expand presence in Europe.

Valuation

Pilgrim's Pride shares are up significantly over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 39.5% and 18% in the past year, respectively.

The S&P 500 index is up 26.3% in the past year.

The stock is currently trading at 18.45X forward 12-month earnings, which compares to 17.99X for the Zacks sub-industry, 20.22X for the Zacks sector and 19.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.1X and as low as 6.22X, with a 5-year median of 10.99X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$37 price target reflects 21.21X forward 12-month earnings.

The table below shows summary valuation data for PPC

Valuation Multiples - PPC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.45	17.99	20.22	19.06
	5-Year High	19.1	18.55	22.39	19.34
	5-Year Low	6.22	11.48	16.65	15.17
	5-Year Median	10.99	14.61	19.74	17.44
P/S F12M	Current	0.73	0.99	9.83	3.46
	5-Year High	1.03	1.11	11.03	3.46
	5-Year Low	0.34	0.63	8.02	2.54
	5-Year Median	0.67	0.93	9.79	3
EV/EBITDA F12M	Current	10.3	9.77	34.11	12.66
	5-Year High	10.3	18.63	36.97	12.66
	5-Year Low	3.89	7.49	29.14	9.08
	5-Year Median	6.51	9.64	33.26	10.78

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 7% (17 out of 253)



Top Peers

B&G Foods, Inc. (BGS)	Neutral
Conagra Brands Inc. (CAG)	Neutral
General Mills, Inc. (GIS)	Neutral
Hormel Foods Corporation (HRL)	Neutral
Post Holdings, Inc. (POST)	Neutral
Sanderson Farms, Inc. (SAFM)	Neutral
The J. M. Smucker Company (SJM)	Neutral
Tyson Foods, Inc. (TSN)	Neutral

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	PPC Outperform	X Industry	S&P 500	HRL Neutral	SAFM Neutral	TSN Neutral
VGM Score	A	-	-	C	B	A
Market Cap	8.03 B	3.86 B	23.76 B	23.69 B	3.86 B	32.86 B
# of Analysts	2	1	13	6	4	5
Dividend Yield	0.00%	0.00%	1.78%	1.90%	0.73%	1.87%
Value Score	B	-	-	C	B	A
Cash/Price	0.08	0.08	0.04	0.03	0.02	0.01
EV/EBITDA	12.81	14.75	13.97	16.70	17.68	10.57
PEG Ratio	0.67	1.16	2.02	4.16	NA	1.16
Price/Book (P/B)	3.45	2.23	3.38	4.00	2.72	2.31
Price/Cash Flow (P/CF)	13.43	10.63	13.70	21.33	18.97	10.63
P/E (F1)	13.24	14.58	18.83	25.20	18.84	13.33
Price/Sales (P/S)	0.73	0.80	2.68	2.49	1.12	0.77
Earnings Yield	7.55%	6.90%	5.30%	3.97%	5.30%	7.50%
Debt/Equity	1.08	0.04	0.72	0.04	0.04	0.69
Cash Flow (\$/share)	2.40	2.40	6.94	2.08	9.19	8.46
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	-13.27%	-12.67%	10.56%	8.16%	-27.22%	17.30%
Proj. EPS Growth (F1/F0)	39.94%	16.04%	7.41%	1.05%	268.33%	23.63%
Curr. Cash Flow Growth	-40.11%	-11.27%	14.83%	-8.04%	3.93%	-3.73%
Hist. Cash Flow Growth (3-5 yrs)	-3.14%	6.68%	9.00%	8.67%	-8.98%	13.92%
Current Ratio	1.82	1.82	1.23	2.14	2.69	1.30
Debt/Capital	51.87%	4.05%	42.92%	4.05%	3.73%	40.86%
Net Margin	3.24%	4.01%	11.08%	10.31%	1.55%	4.77%
Return on Equity	17.87%	14.01%	17.10%	16.14%	3.94%	14.53%
Sales/Assets	1.73	1.46	0.55	1.18	1.97	1.29
Proj. Sales Growth (F1/F0)	%	5.15%	4.20%	1.52%	10.91%	9.34%
Momentum Score	B	-	-	B	B	A
Daily Price Chg	-1.64%	-1.18%	0.33%	-1.77%	-1.14%	-1.18%
1 Week Price Chg	0.67%	-0.46%	0.13%	0.67%	-0.46%	0.62%
4 Week Price Chg	-0.34%	2.44%	3.31%	-3.17%	3.97%	0.57%
12 Week Price Chg	4.89%	7.94%	9.70%	6.34%	18.30%	9.55%
52 Week Price Chg	105.36%	48.19%	30.28%	6.31%	73.14%	65.11%
20 Day Average Volume	617,386	55,430	1,603,615	1,851,567	337,348	2,066,397
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	6.10%	1.51%	0.00%	0.00%	15.49%	3.02%
(F1) EPS Est 12 week change	11.19%	-0.92%	-0.57%	-0.99%	-4.72%	0.82%
(Q1) EPS Est Mthly Chg	-21.43%	0.00%	0.00%	0.00%	NA	13.36%

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	B
Growth Score	B
Momentum Score	B
VGM Score	A

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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