

Pilgrims Pride(PPC)

\$16.41 (As of 08/13/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/28/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

Shares of Pilgrim's Pride have underperformed the industry in the past six months. The company has been facing weak macro conditions in Mexico, which is disrupting consumer spending and lowering demand. Such headwinds along with lower revenues from U.S. operations put pressure on the company's top and bottom line figures during the second quarter of 2020. The company's U.S. operations were mainly affected by the coronavirus outbreak. Nevertheless, Pilgrim's Pride's European operations have continued to be strong, courtesy of better operational efficiencies, robust retail demand as well as solid pork exports to China. Going ahead, management is on track with the integration of new Europe-based operations. Also feed input costs, including soybean, corn and wheat, were favorable for the company during the second quarter.

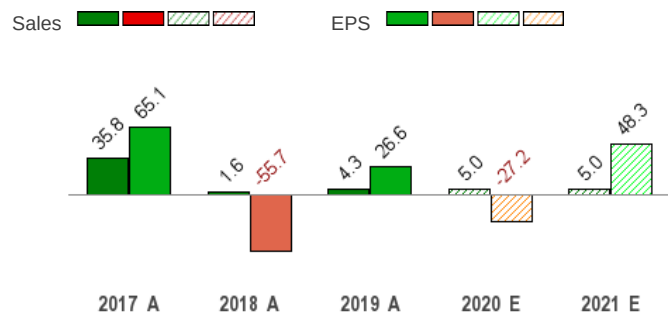
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.67 - \$14.87
20 Day Average Volume (sh)	1,123,703
Market Cap	\$4.0 B
YTD Price Change	-49.8%
Beta	0.92
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Meat Products
Zacks Industry Rank	Bottom 21% (199 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-100.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-35.2%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	21.3
P/E F1	13.9
PEG F1	0.7
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,579 E
2020	3,075 A	2,824 A			11,980 E
2019	2,725 A	2,843 A	2,778 A	3,063 A	11,409 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.75 E
2020	\$0.18 A	\$0.00 A	\$0.23 E		\$1.18 E
2019	\$0.35 A	\$0.69 A	\$0.45 A	\$0.14 A	\$1.62 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 08/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/14/2020.

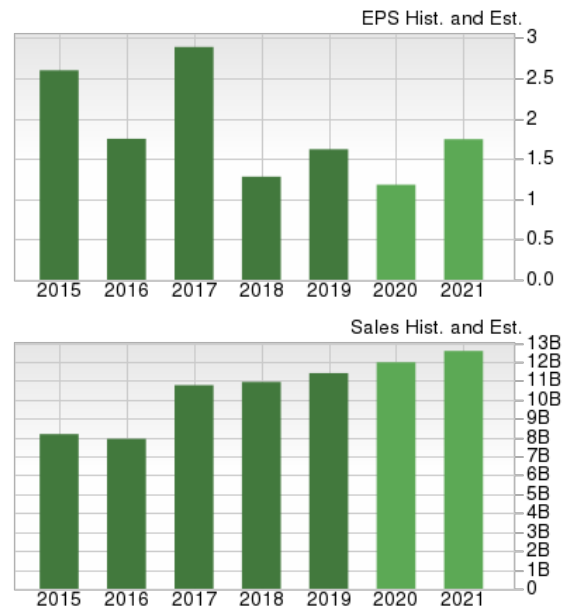
Overview

Pilgrim's Pride Corporation (PPC) is focusing on strengthening its Prepared Foods category. The category grew in the United States during the fourth quarter of 2019 on continued investments in R&D and sales as well as marketing of new product innovations. Also, the company has been increasing its product mix for organic category, including No-Antibiotics-Ever products, to cater customers' evolving tastes.

This Greeley, CO based company 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. Also, 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.

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.

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. Pilgrim's Pride operates in three reportable business segments that include the United States (66.9% of 2019 sales), Europe (20.9% of 2019 sales) and Mexico (12.2% of 2019 sales), respectively.



Reasons To Buy:

▲ **European Operations Bodes Well:** Pilgrim's Pride is gaining from sturdy European business. During the second quarter of 2020, European operations surged 41.3% year over year to \$757.2 million. The uptick was driven by better operational efficiencies, robust retail demand as well as solid pork exports to China. Prior to this, the company's revenues from this region surged 60%, driven by increased demand across retail as well as robust pork exports mainly to China. Additionally, the company is on track with integration of its new European operations by undertaking efforts like enhancing distribution capacity and strengthening partnership with key customers.

Pilgrim's Pride continues to gain from strength in European operations. Further, the company witnessed favorable feed input costs during the second quarter of 2020.

▲ **Feed Input Costs Favorable in Q2:** During the second quarter of 2020, corn prices fell more than 8% due to the economic impacts stemming from COVID-19. Moreover, soybean prices fell nearly 13% for the said period. Going ahead, management is optimistic regarding the costs of corn and soybean in the United States. Moving to Europe, wheat prices fell nearly 3.5% in the second quarter. Although wheat price is expected to soon rise in the region, the company expects to mitigate the same by accessing cheaper grain alternatives.

▲ **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 along creating competitive advantages over its peers, especially amid the coronavirus-led disruptions. 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, it 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. Moreover, 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. Further, the company is on track to expand gluten-free products. Also, the company has been increasing its product mix for organic category, including No-Antibiotics-Ever products, to cater customers' evolving tastes. Additionally, the company has been expanding breast meat portioning capacity along with increasing dark meat debone capabilities to mitigate its exposure to volatility of pure commodity market.

Reasons To Sell:

- ▼ **Weak Q2 Results, U.S Operations Poor:** Shares of Pilgrim's Pride have plunged 37.6% in the past three months compared with the industry's drop of 8.3%. In the second quarter of 2020, Pilgrim's Pride witnessed a decline in the top- and bottom-line metrics. The downside was caused by dismal performance in the United States and Mexico operations. Revenues in the U.S. operations went down 6.2% year over year due to adverse impacts of the coronavirus outbreak. Moreover, large bird deboning category was especially challenged during the quarter. Also, revenues from U.S. Prepared Foods declined 18% in the quarter, as shutdowns had an unfavorable impact on foodservice, schools and delis. Further, Pilgrim's Pride's overall cost of sales in the second quarter increased 9.3% year over year. Also, gross profit and adjusted EBITDA fell 67.4% and 67.9% year over year, respectively.
- ▼ **Macroeconomic Headwinds in Mexico:** Pilgrim's Pride's has been facing weak macro conditions in Mexico, which has led to disruptions in consumer spending along with lower demand in the region. These headwinds along with a weak peso weighed upon revenues from the Mexican region during the second quarter of 2020. Persistence of weak macro conditions in Mexico can be a threat to the company's performance in the future.
- ▼ **Debt Analysis:** Pilgrim's Pride's long-term debt (including operating lease liabilities) of \$2,830 million as of Jun 28, 2020 reflected an increase of 12.7% on a sequential basis. Incidentally, the company's debt-to-capitalization ratio of 0.54 stood higher than the industry's ratio of 0.31. Moreover, the company's times interest earned ratio of 3.8 is below the industry's ratio of 8.2. 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.
- ▼ **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.

Tough macroeconomic conditions in Mexico and the United States are a threat to Pilgrim's Pride performance.

Last Earnings Report

Pilgrim's Pride Q2 Earnings Miss Estimates, Sales Down

Pilgrim's Pride reported second-quarter 2020 results, with the top and the bottom-line declining year over year. Also, earnings missed the Zacks Consensus Estimate. The downside can be attributed to dismal performance in the United States and Mexican operations.

Q2 in Detail

The company posted breakeven quarterly adjusted earnings in the second quarter. Notably, the metric came in at earnings of 69 cents per share in the year-ago quarter. The Zacks Consensus Estimate was pegged at earnings of 11 cents per share.

In the reported quarter, Pilgrim's Pride generated net sales of \$2,824 million, down 0.7% year over year. The downside can be attributed to dismal performance in the United States and Mexico operations.

Revenues in the U.S. operations amounted to \$1,798.7 million, down 6.2% year over year. The downside was due to the adverse impact of the coronavirus outbreak. Moreover, large bird deboning category was especially challenged during the quarter.

Mexican operations generated revenues of \$268.1 million in the reported quarter, down 31.3% year over year. The downtick was caused by weak macro environment, which impacted the overall demand in the region. A weak peso during the quarter acted as a deterrent. Also, industry-wide prices were below seasonal expectations.

Revenues from European operations surged 41.3% year over year to \$757.2 million. The uptick was driven by better operational efficiencies, robust retail demand as well as solid pork exports to china. Also, improvement in SG&A management as well as synergies contributed to the upside. However, lower demand in foodservice acted as a deterrent.

Pilgrim's Pride's overall cost of sales in the reported quarter increased 9.25% year over year to \$2,704.2 million. Moreover, gross profit fell 67.4% year over year to \$119.9 million.

Further, adjusted EBITDA was \$112.2 million, down 67.9% year over year. Adjusted EBITDA margin of 4% declined 8.3 percentage points on a year-over-year basis.

Other Financial Details

Pilgrim's Pride exited the quarter with cash and cash equivalents of approximately \$507.4 million, long-term debt (less current maturities) of \$2,616 million and total shareholders' equity of \$2,374.4 million. Further, the company generated \$140.7 million as cash from operating activities for six months ended Jun 28, 2020.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	NA
EPS Surprise	-100.00%
Quarterly EPS	0.00
Annual EPS (TTM)	0.77

Valuation

Pilgrim's Pride shares are down 49.9% in the year-to-date period and 42.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 11% in the year-to-date period, while the Zacks Consumer Staples sector declined 6.5%. Over the past year, the Zacks sub-industry is down 10.1%, while the sector declined 3.4%.

The S&P 500 index is up 4.8% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at 10.73X forward 12-month earnings, which compares to 19.09X for the Zacks sub-industry, 20.18X for the Zacks sector and 22.91X 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 11.15X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 11.77X 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	10.73	19.09	20.18	22.91
	5-Year High	19.1	19.1	22.37	22.91
	5-Year Low	6.22	11.48	16.63	15.25
	5-Year Median	11.15	15.07	19.58	17.58
P/S F12M	Current	0.35	0.95	9.57	3.7
	5-Year High	0.88	1.11	11.15	3.7
	5-Year Low	0.34	0.63	8.1	2.53
	5-Year Median	0.65	0.95	9.89	3.05
EV/EBITDA F12M	Current	10.3	10.4	32.76	12.72
	5-Year High	10.3	19.98	37.49	14.22
	5-Year Low	5.04	7.52	25.81	9.05
	5-Year Median	6.83	9.79	33.81	11.02

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Tyson Foods, Inc. (TSN)	Outperform	2
BG Foods, Inc. (BGS)	Neutral	2
Conagra Brands Inc. (CAG)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Hormel Foods Corporation (HRL)	Neutral	3
Sanderson Farms, Inc. (SAFM)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	4
Post Holdings, Inc. (POST)	Underperform	5

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	PPC	X Industry	S&P 500	HRL	SAFM	TSN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	5	-	-	3	3	2
VGM Score	A	-	-	B	B	A
Market Cap	4.00 B	4.00 B	23.58 B	28.09 B	2.61 B	23.58 B
# of Analysts	2	3	14	6	1	5
Dividend Yield	0.00%	0.00%	1.68%	1.78%	1.09%	2.60%
Value Score	A	-	-	C	C	A
Cash/Price	0.14	0.06	0.07	0.02	0.02	0.06
EV/EBITDA	6.05	7.22	13.34	19.76	12.85	8.39
PEG Ratio	0.70	3.14	2.99	4.20	NA	NA
Price/Book (P/B)	1.69	1.57	3.20	4.55	1.90	1.57
Price/Cash Flow (P/CF)	5.88	7.34	12.83	25.10	12.76	7.63
P/E (F1)	13.84	22.70	21.99	31.49	NA	13.49
Price/Sales (P/S)	0.34	0.62	2.53	2.93	0.74	0.55
Earnings Yield	7.19%	3.17%	4.35%	3.17%	-1.24%	7.41%
Debt/Equity	1.19	0.13	0.77	0.01	0.17	0.75
Cash Flow (\$/share)	2.79	2.08	6.94	2.08	9.19	8.46
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	-13.84%	-7.08%	10.41%	5.79%	-31.56%	10.07%
Proj. EPS Growth (F1/F0)	-27.16%	-12.37%	-6.32%	-4.89%	-157.77%	-12.31%
Curr. Cash Flow Growth	16.70%	-5.88%	5.20%	-8.04%	3.93%	-3.73%
Hist. Cash Flow Growth (3-5 yrs)	-4.98%	3.13%	8.55%	8.67%	-8.98%	13.92%
Current Ratio	1.89	1.89	1.33	1.70	3.04	1.80
Debt/Capital	54.38%	11.40%	44.59%	0.91%	14.40%	42.91%
Net Margin	2.24%	2.24%	10.13%	9.64%	-0.06%	4.26%
Return on Equity	7.89%	7.89%	14.51%	15.38%	-2.65%	12.63%
Sales/Assets	1.67	1.26	0.51	1.17	1.91	1.26
Proj. Sales Growth (F1/F0)	0.00%	1.57%	-1.43%	2.12%	1.57%	2.32%
Momentum Score	D	-	-	C	D	F
Daily Price Chg	0.43%	0.17%	-0.44%	0.17%	-0.96%	-1.69%
1 Week Price Chg	0.65%	0.65%	2.30%	1.49%	0.95%	2.20%
4 Week Price Chg	-0.12%	2.32%	4.38%	5.23%	-2.33%	7.01%
12 Week Price Chg	-21.11%	9.03%	13.59%	13.28%	-13.55%	9.03%
52 Week Price Chg	-42.26%	-21.88%	5.75%	25.92%	-17.28%	-26.47%
20 Day Average Volume	1,123,703	251,439	1,984,154	1,306,360	251,439	2,228,740
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-35.17%	0.00%	2.08%	0.00%	0.00%	8.08%
(F1) EPS Est 12 week change	1.72%	-5.61%	2.66%	-5.61%	-30.94%	-0.46%
(Q1) EPS Est Mthly Chg	NA%	-1.04%	0.94%	0.00%	0.00%	-6.79%

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	A
Growth Score	B
Momentum Score	D
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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