

Pilgrims Pride(PPC)

\$22.76 (As of 02/25/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/24/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Pilgrim's Pride's shares have outpaced the industry in the past year. The company is gaining from solid Prepared Foods business, which remained strong in United States in fourth-quarter 2019. This was backed by investments in R&D and marketing of new products. Also, Pilgrim's Pride continues to gain from strategic acquisitions and expansion in the fresh foods space. Earnings and sales grew year over year in the quarter, backed by improvement in U.S., Mexican and European operations. Also, focus on key customers and supply-chain improvements bode well. However, the company has been facing weak macro conditions in Mexico causing disruptions in consumer spending and lower demand in the region. Further, chicken prices were lower than seasonal expectations in the region. Also, stiff competition and higher feed costs are concerns.

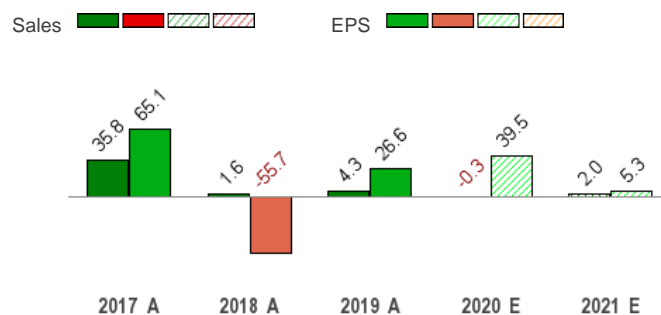
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.67 - \$19.34
20 Day Average Volume (sh)	833,697
Market Cap	\$5.7 B
YTD Price Change	-30.5%
Beta	0.78
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Meat Products
Zacks Industry Rank	Top 44% (112 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-36.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-7.2%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	10.1
PEG F1	0.5
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,607 E
2020					11,380 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					\$2.38 E
2020	\$0.41 E				\$2.26 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 02/25/2020. The reports text and the analyst-provided sales and EPS estimates are as of 02/26/2020.

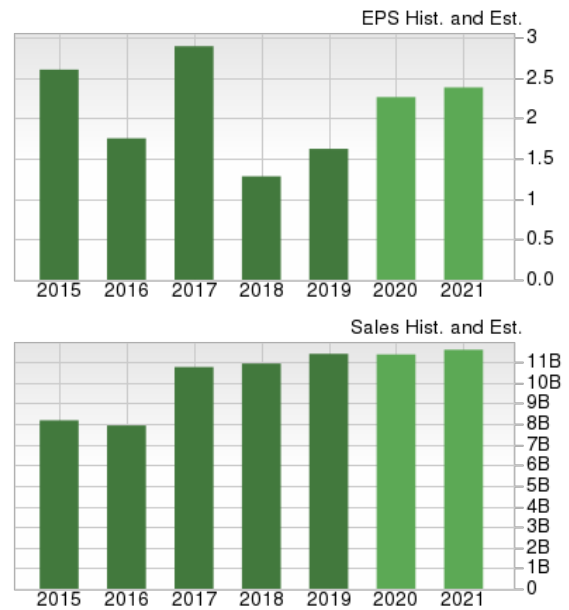
Overview

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:

▲ **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. The category grew in the United States during the fourth quarter on continued investments in R&D and sales as well as marketing of new product innovations. Earlier, the company had announced that it is rolling out a number of new technologies to become the first digital chicken company. Further, Pilgrim's Pride is on track with launching new products for Prepared Foods category in Mexico. Strength in this business and focus on expansions propelled the company's shares by 15.7% in past year compared with the industry's growth of 12.7%.

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. In the fourth quarter, retail customer revenues improved 12% year over year on the back of key customer growth. 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. In fact, the launch of fresh chicken products under premium Pilgrim's brand bode well. 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.

▲ **Accretive Acquisitions:** Pilgrim's Pride has been gradually strengthening its competency on the back of business acquisitions. In October 2019, the company acquired a West Midlands food manufacturer, Tulip, to further strengthen its position as a leading global player by expanding prepared foods portfolio and brand. In fact, this recently-acquired business is already yielding positive EBITDA. The uptick was driven by strength in exports along with robust domestic demand in the fourth quarter. Also, enhanced operations and synergies are aiding growth.

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.

Reasons To Sell:

- ▼ **Macroeconomic Headwinds in Mexico:** Pilgrim's Pride's has been facing weak macro conditions in Mexico, which led to disruptions in consumer spending along with lower demand in the region. Moreover, chicken prices in the commodity sector were lower than seasonal expectations in the fourth quarter. In fact, the headwind put pressure on operating profit in Mexico during the quarter. Persistence of weak macro conditions in Mexico can be a threat to the company's performance in the future.
 - ▼ **Higher Feed Cost:** During fourth-quarter 2019, Pilgrim's Pride's cost of sales rose 12.5%. Recently, the company has been witnessing higher wheat prices in the U.K. stemming from poor planting situations during late 2019 in Western Europe. Persistence of this trend may affect the company's margins and the bottom line in the long run.
 - ▼ **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.
-

Tough macroeconomic conditions in Mexico along with higher feed cost are a threat to Pilgrim's Pride performance.

Last Earnings Report

Pilgrim's Pride Q4 Earnings Miss Estimates, Sales Up Y/Y

Pilgrim's Pride Corporation reported fourth-quarter 2019 results, with the top and the bottom line improving year over year. The upside can be attributed to improved performance in the United States, Mexico and European operations. However, earnings lagged the Zacks Consensus Estimate.

Q4 in Detail

Quarterly adjusted earnings of 14 cents per share surged 55.6% from the figure reported in the year-ago quarter. We believe that higher sales and margins supported the year-over-year upside. However, the bottom line lagged the Zacks Consensus Estimate of 22 cents. .

In the reported quarter, Pilgrim's Pride generated net sales of \$3,063.5 million, up 15.3% year over year. Results were backed by higher sales in the United States, Mexico and European operations.

Revenues from the **U.S.** operations amounted to \$1,904.5 million, up 4.6% year over year. The upside was driven by strong demand in case-ready and small bird operations. Results also benefited year over year from better conditions in the U.S. commodity market. Further, Prepared Foods segment improved in the quarter. Additionally, the company's progress on its Key Customer Strategy is aiding growth.

Mexican operations generated revenues of \$343.6 million in the reported quarter, up 6.9% year over year. Results gained from increased volume, which more than offset lower prices along with weak macro conditions in Mexico.

Revenues from **European** operations moved up 58.5% year over year to \$815.4 million. The uptick was driven by the company's efforts to mitigate input-cost challenges, investments in automation along with focus on improved yields. Robust operational efficiencies further aided the performance. Further, solid domestic demand and export for pork contributed to the upside.

Pilgrim's Pride's overall cost of sales in the reported quarter increased 12.5% year over year to \$2,862.1 million. Moreover, higher sales are likely to have driven gross profit, which rose 80.1% year over year to \$201.4 million. Also, gross margin rose 2.4 percentage points to 6.6%.

Further, adjusted EBITDA was \$161.6 million, up 45.6% year over year. Adjusted EBITDA margin of 5.3% reflected rise of 1.1 percentage points.

Other Financial Details

Pilgrim's Pride exited the quarter with cash and cash equivalents of approximately \$260.6 million, long-term debt (less current maturities) of \$2,276 million and total shareholders' equity of \$2,536.1 million. Further, the company generated \$666.5 million as cash from operating activities for fifty-two weeks ended 29 December, 2019.

Growth Efforts on Track

The company is committed toward boosting operations through Key Customer strategy as well as augmenting capacities and capabilities. Pilgrim's Pride continues to engage in evolving the portfolio with product diversification, high-value products and margin expansion. Moreover, the company is committed toward continuous innovation of new products.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	NA
EPS Surprise	-36.36%
Quarterly EPS	0.14
Annual EPS (TTM)	1.63

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 down 30.4% in the year-to-date period and up 15.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 13.3% and 2.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 12.7% and 11.6%, respectively.

The S&P 500 index is up 0.4% in the year-to-date period and 17.2% in the past year.

The stock is currently trading at 9.91X forward 12-month earnings, which compares to 14.06X for the Zacks sub-industry, 19.16X for the Zacks sector and 18.44X 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 11.06X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$24 price target reflects 10.45X 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	9.91	14.06	19.16	18.44
	5-Year High	19.1	18.55	22.38	19.34
	5-Year Low	6.22	11.48	16.66	15.18
	5-Year Median	11.06	14.61	19.71	17.47
P/S F12M	Current	0.51	0.87	9.78	3.39
	5-Year High	0.88	1.11	11.13	3.43
	5-Year Low	0.34	0.63	8.09	2.54
	5-Year Median	0.66	0.93	9.88	3
EV/EBITDA F12M	Current	10.3	9.82	34.39	13.54
	5-Year High	10.3	18.63	37.23	13.72
	5-Year Low	3.89	7.49	29.38	9.08
	5-Year Median	6.62	9.69	33.59	10.81

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 255)



Top Peers

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
B&G Foods, Inc. (BGS)	Underperform
Tyson Foods, Inc. (TSN)	Underperform

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	PPC Neutral	X Industry	S&P 500	HRL Neutral	SAFM Neutral	TSN Underperform
VGM Score	A	-	-	D	B	A
Market Cap	5.68 B	2.90 B	22.56 B	23.91 B	2.90 B	26.18 B
# of Analysts	2	2	13	6	4	5
Dividend Yield	0.00%	0.00%	1.88%	2.08%	0.98%	2.34%
Value Score	A	-	-	C	B	A
Cash/Price	0.05	0.05	0.04	0.03	0.03	0.02
EV/EBITDA	7.63	11.06	13.36	16.86	13.24	8.88
PEG Ratio	0.50	1.38	1.94	4.00	NA	1.38
Price/Book (P/B)	2.24	1.82	3.09	3.92	2.04	1.80
Price/Cash Flow (P/CF)	8.15	8.82	12.57	21.53	14.20	8.47
P/E (F1)	9.94	12.71	17.93	25.41	13.82	11.59
Price/Sales (P/S)	0.50	0.69	2.51	2.51	0.84	0.61
Earnings Yield	9.93%	7.94%	5.55%	3.94%	7.24%	8.63%
Debt/Equity	0.99	0.05	0.70	0.05	0.04	0.67
Cash Flow (\$/share)	2.79	2.79	7.02	2.08	9.19	8.46
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-13.01%	-12.18%	10.85%	6.96%	-27.22%	15.34%
Proj. EPS Growth (F1/F0)	39.51%	12.33%	6.86%	1.15%	276.10%	13.37%
Curr. Cash Flow Growth	16.70%	-5.88%	6.53%	-8.04%	3.93%	-3.73%
Hist. Cash Flow Growth (3-5 yrs)	-5.11%	3.13%	8.38%	8.67%	-8.98%	13.92%
Current Ratio	1.58	1.58	1.22	2.34	2.69	1.30
Debt/Capital	49.76%	4.82%	42.37%	4.82%	3.73%	40.15%
Net Margin	4.00%	4.71%	11.57%	10.30%	1.55%	4.71%
Return on Equity	17.49%	13.48%	16.80%	15.90%	3.94%	14.36%
Sales/Assets	1.72	1.29	0.54	1.18	1.97	1.29
Proj. Sales Growth (F1/F0)	0.00%	2.56%	4.03%	2.03%	6.61%	6.78%
Momentum Score	B	-	-	D	F	D
Daily Price Chg	-0.98%	-0.98%	-3.36%	0.34%	-2.51%	-5.13%
1 Week Price Chg	-7.55%	-2.77%	-0.94%	-7.84%	-2.99%	-3.33%
4 Week Price Chg	-17.32%	-10.11%	-5.65%	-4.95%	-9.25%	-15.21%
12 Week Price Chg	-28.51%	-11.12%	-1.04%	-1.80%	-20.46%	-19.38%
52 Week Price Chg	15.10%	9.73%	8.00%	6.05%	13.41%	16.09%
20 Day Average Volume	833,697	128,671	2,073,853	2,281,832	408,744	2,947,627
(F1) EPS Est 1 week change	-7.76%	-0.24%	0.00%	-0.47%	0.00%	-1.71%
(F1) EPS Est 4 week change	-7.19%	-3.59%	-0.06%	0.09%	-14.72%	-8.30%
(F1) EPS Est 12 week change	0.22%	-0.03%	-0.19%	0.76%	12.35%	-5.64%
(Q1) EPS Est Mthly Chg	NA%	-0.40%	-0.61%	-0.40%	NA	-30.31%

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	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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.