

Pilgrims Pride(PPC)

\$16.06 (As of 07/28/20)

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)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

Shares of Pilgrim's Pride's have underperformed the industry in the past three months. The company has been witnessing weak macro conditions in Mexico, which is disrupting consumer spending and lowering demand in the region. Further, chicken prices were lower than seasonal expectations in the region during the first quarter of 2020. Apart from this, escalated feed costs are concerns. Incidentally, Pilgrim's Pride's cost of sales increased 15.6% year over year in the first quarter. Nevertheless, the company's net sales increased year over year in the first quarter. Results were backed by higher revenues in the United States and European operations. Additionally, Pilgrim's Pride is gaining from growth in the Prepared Foods business. Moreover, the company continues to benefit from expansion in the fresh foods space.

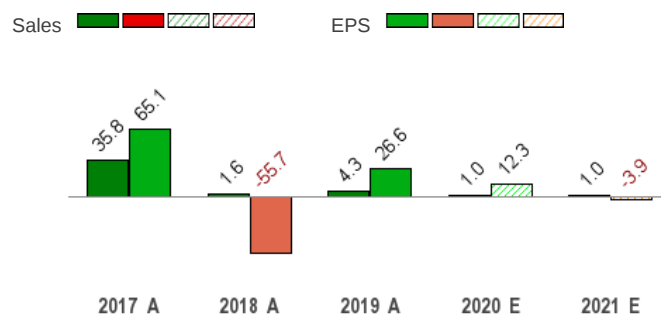
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.67 - \$15.34
20 Day Average Volume (sh)	1,018,753
Market Cap	\$4.0 B
YTD Price Change	-50.9%
Beta	0.97
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Meat Products
Zacks Industry Rank	Bottom 5% (240 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/29/2020
Earnings ESP	0.0%
P/E TTM	11.0
P/E F1	8.8
PEG F1	0.5
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					11,639 E
2020	3,075 A				11,523 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	\$0.11 E			\$1.82 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 07/28/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/29/2020.

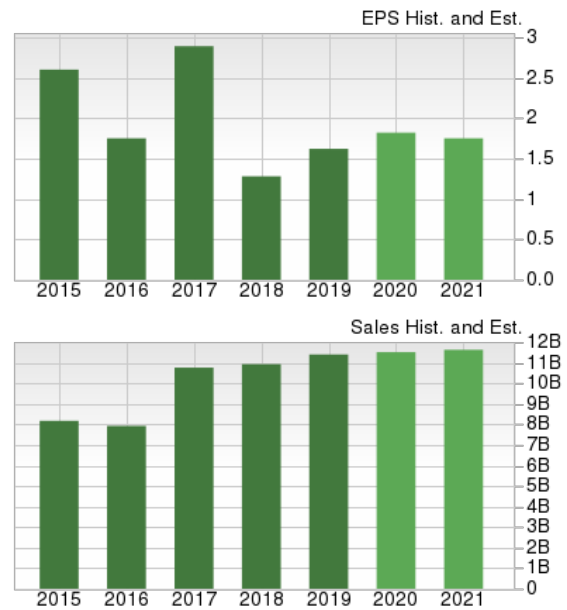
Overview

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:

- ▲ **Robust Sales Trend:** In the first quarter of 2020, the company generated net sales of \$3,074.9 million, up 12.9% year over year. Results were backed by higher sales in the United States and European operations. Speaking of U.S. operations, revenues were up 2.3% year over year backed by strong performance across all segments. Additionally, the company's business model along with promptness in changing mix aided growth. Further, revenues from European operations surged 60%. The uptick was driven by increased demand across retail as well as robust pork exports mainly to China. Also, the company's initial execution of operational improvements bodes well. Prior to this, Pilgrim's Pride net sales increased 15.3% in fourth-quarter 2019.
- ▲ **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 the category rose 2% in the United States during the first quarter of 2020. The upside can be attributed to continued investments, marketing and robust 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.
- ▲ **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.

Pilgrim's Pride's first-quarter 2020 sales gain from strength in the U.S. and European operations.

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 continued to remain lower than seasonal expectations almost throughout the first quarter of 2020. This 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. Shares of Pilgrim's Pride have dipped 27% in the past three months against the industry's growth of 2.4%.

Tough macroeconomic conditions in Mexico along with higher feed cost are a threat to Pilgrim's Pride performance.
 - ▼ **Higher Feed Cost:** During first-quarter 2020, Pilgrim's Pride's cost of sales rose 15.6%. Recently, the company is witnessing higher wheat prices in the U.K., stemming from certain export restrictions as well as adverse impacts of unfavorable foreign currency rates. Persistence of this trend may affect the company's margins and the bottom line in the long run.
 - ▼ **Debt Analysis:** Pilgrim's Pride's long-term debt (including operating lease liabilities) of \$2,841 million as of Mar 29, 2020 reflected an increase of 13.1% on a sequential basis. Incidentally, the company's debt-to-capitalization ratio of 0.54 stood higher than the industry's ratio of 0.36. Also, its debt-to-capitalization ratio reflected a sequential increase from 0.50 at the end of the preceding quarter. Moreover, the company's times interest earned ratio of 5.7 is below the industry's ratio of 8.7. 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.
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Last Earnings Report

Pilgrim's Pride's Q1 Earnings Decline, Sales Up Y/Y

Pilgrim's Pride Corporation reported first-quarter 2020 results, with the bottom line declining year over year. Nevertheless, the top line increased on a year-over-year basis. The upside can be attributed to improved performance in the United States and European operations. Let's take a closer look.

Q1 in Detail

Quarterly adjusted earnings of 18 cents per share declined 48.6% from the figure reported in the year-ago quarter. The metric includes a one-time gain on case settlement of 9 cents per share.

Including this, earnings per share came in at 27 cents. The downside might have been caused by lower margins. The Zacks Consensus Estimate was pegged at 17 cents.

In the reported quarter, Pilgrim's Pride generated net sales of \$3,074.9 million, up 12.9% year over year. Results were backed by higher sales in the United States and European operations.

Revenues in the **U.S.** operations amounted to \$1,926.9 million, up 2.3% year over year. The upside was driven by strong performance across all segments. Further, the company's business model along with promptness in changing mix aided growth.

Mexican operations generated revenues of \$325.8 million in the reported quarter, down 0.1% year over year. The downtick was caused by weak macro conditions in Mexico, which more than offset growth in Prepared Foods in the region.

Revenues from **European** operations surged 60% year over year to \$822.3 million. The uptick was driven by increased demand across retail as well as robust pork exports mainly to China. Also, the company's initial execution of operational improvements bodes well. However, lower demand in foodservice acted as a deterrent.

Pilgrim's Pride's overall cost of sales in the reported quarter increased 15.6% year over year to \$2,897.8 million. Moreover, gross profit fell 19.1% year over year to \$177.1 million. Also, gross margin deteriorated 2.7 percentage points to 5.76%.

Further, adjusted EBITDA was \$165.5 million, down 19% year over year. Adjusted EBITDA margin of 5.4% declined 2.1 percentage points on a year-over-year basis.

Other Financial Details

Pilgrim's Pride exited the quarter with cash and cash equivalents of approximately \$511.2 million, long-term debt (less current maturities) of \$2,621 million and total shareholders' equity of \$2,476.5 million. Further, the company generated \$21.1 million as cash from operating activities for three months ended Mar 29.

Growth Efforts on Track

Pilgrim's Pride is committed toward boosting operations through Key Customer strategy as well as augmenting capacities and capabilities. The company continues to engage in evolving the portfolio with product diversification.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	NA
EPS Surprise	5.88%
Quarterly EPS	0.18
Annual EPS (TTM)	1.46

Valuation

Pilgrim's Pride shares are down 50.9% in the year-to-date period and 41.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 13.7% in the year-to-date period, while the Zacks Consumer Staples sector declined 6.9%. Over the past year, the Zacks sub-industry is down 14.1%, while the sector declined 5.9%.

The S&P 500 index is up 1.8% in the year-to-date period and 10.1% in the past year.

The stock is currently trading at 10.91X forward 12-month earnings, which compares to 18.51X for the Zacks sub-industry, 20.15X for the Zacks sector and 22.61X 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 11.63X 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	10.91	18.51	20.15	22.61
	5-Year High	19.1	19.1	22.37	22.61
	5-Year Low	6.22	11.48	16.63	15.25
	5-Year Median	11.15	14.7	19.58	17.52
P/S F12M	Current	0.35	0.91	9.55	3.57
	5-Year High	0.88	1.11	11.15	3.57
	5-Year Low	0.34	0.63	8.1	2.53
	5-Year Median	0.65	0.94	9.89	3.02
EV/EBITDA F12M	Current	10.3	10.39	32.76	13.21
	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	9.78	33.81	11

As of 07/28/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BG Foods, Inc. (BGS)	Outperform	2
Conagra Brands Inc. (CAG)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Hormel Foods Corporation (HRL)	Neutral	4
Post Holdings, Inc. (POST)	Neutral	2
The J. M. Smucker Company (SJM)	Neutral	4
Tyson Foods, Inc. (TSN)	Neutral	3
Sanderson Farms, Inc. (SAFM)	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	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	5	3
VGM Score	A	-	-	B	B	A
Market Cap	3.96 B	3.96 B	22.47 B	27.25 B	2.48 B	22.13 B
# of Analysts	1	2.5	14	6	1	4
Dividend Yield	0.00%	0.00%	1.84%	1.84%	1.15%	2.77%
Value Score	A	-	-	C	C	A
Cash/Price	0.14	0.03	0.07	0.02	0.02	0.02
EV/EBITDA	6.02	7.10	13.04	19.16	12.25	8.19
PEG Ratio	0.44	2.52	2.97	4.07	NA	2.52
Price/Book (P/B)	1.60	1.52	3.11	4.41	1.81	1.52
Price/Cash Flow (P/CF)	5.76	7.09	12.07	24.34	12.12	7.18
P/E (F1)	8.66	13.71	21.52	30.55	NA	13.71
Price/Sales (P/S)	0.34	0.60	2.35	2.84	0.70	0.51
Earnings Yield	11.33%	5.28%	4.34%	3.26%	-1.30%	7.29%
Debt/Equity	1.15	0.05	0.76	0.01	0.17	0.75
Cash Flow (\$/share)	2.79	2.08	7.01	2.08	9.19	8.46
Growth Score	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	-12.21%	-7.65%	10.85%	5.79%	-31.56%	12.83%
Proj. EPS Growth (F1/F0)	12.35%	-0.24%	-7.56%	-4.89%	-157.77%	-18.86%
Curr. Cash Flow Growth	16.70%	-5.88%	5.47%	-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	1.31	1.70	3.04	1.61
Debt/Capital	53.42%	4.34%	44.41%	0.91%	14.40%	42.93%
Net Margin	3.73%	3.73%	10.44%	9.64%	-0.06%	4.52%
Return on Equity	15.14%	13.01%	15.10%	15.38%	-2.65%	13.01%
Sales/Assets	1.71	1.29	0.54	1.17	1.91	1.29
Proj. Sales Growth (F1/F0)	0.00%	1.57%	-1.97%	2.12%	1.57%	2.88%
Momentum Score	A	-	-	C	A	C
Daily Price Chg	2.75%	0.00%	-0.80%	0.02%	-0.01%	-0.39%
1 Week Price Chg	-3.80%	0.00%	0.37%	0.70%	-6.35%	0.00%
4 Week Price Chg	-4.91%	0.54%	3.64%	4.74%	-3.93%	1.73%
12 Week Price Chg	-20.55%	3.80%	11.56%	9.22%	-18.45%	6.58%
52 Week Price Chg	-41.19%	-29.80%	-3.92%	21.45%	-16.75%	-25.32%
20 Day Average Volume	1,018,753	352,144	1,867,919	1,532,879	352,144	1,835,255
(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%	0.21%	0.00%	0.00%	0.68%
(F1) EPS Est 12 week change	9.64%	-9.93%	-1.29%	-5.16%	-165.93%	-20.96%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.09%	0.00%	0.00%	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	A
Growth Score	A
Momentum Score	A
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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