

Sanderson Farms, Inc. (SAFM)

\$174.21 (As of 01/02/20)

Price Target (6-12 Months): **\$183.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: B

Summary

Sanderson Farms' shares have outpaced the industry in the past year. The company has been benefitting from strong brands and growth in poultry products. In fact, higher average sales prices of poultry products drove sales during fourth-quarter fiscal 2019. Management highlighted that protein prices are expected to be higher in 2020 on the back of worldwide protein deficit caused by the impact of African swine fever on Asian pork supplies. Additionally, increased promotions for chicken sandwiches at quick-serve restaurants as well as higher anticipated beef and pork prices are likely to aid growth. Also, increasing export sales trend bodes well. However, Sanderson Farms witnessed high feed costs during the fourth quarter, which are expected to persist in future. Also, rising freight costs and stiff competition in poultry business is a worry.

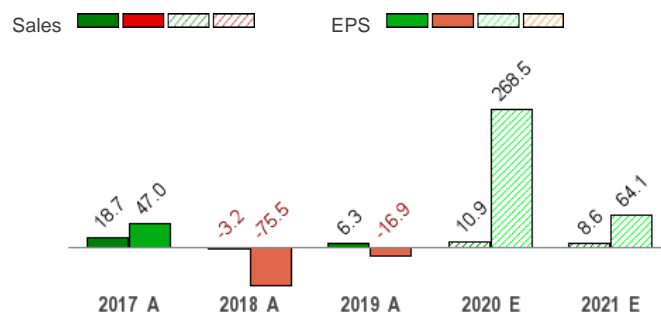
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$179.45 - \$98.45
20 Day Average Volume (sh)	337,348
Market Cap	\$3.9 B
YTD Price Change	-1.1%
Beta	0.75
Dividend / Div Yld	\$1.28 / 0.7%
Industry	Food - Meat Products
Zacks Industry Rank	Top 7% (17 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.6%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	15.5%
Expected Report Date	02/25/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,143 E
2020					3,815 E
2019	743 A	845 A	945 A	906 A	3,440 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$15.18 E
2020					\$9.25 E
2019	-\$0.82 A	\$1.83 A	\$2.51 A	-\$0.95 A	\$2.51 A

*Quarterly figures may not add up to annual.

P/E TTM	67.8
P/E F1	18.9
PEG F1	NA
P/S TTM	1.1

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

Based in Mississippi, Sanderson Farms, Inc. is a poultry processing company that produces, processes, markets and distributes fresh and frozen chicken products. In addition to this, the company sells ice pack, chill pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms brand name to retailers, distributors, and casual dining operators in the southeastern, southwestern, northeastern and western United States, and to customers who resell frozen chicken into export markets.

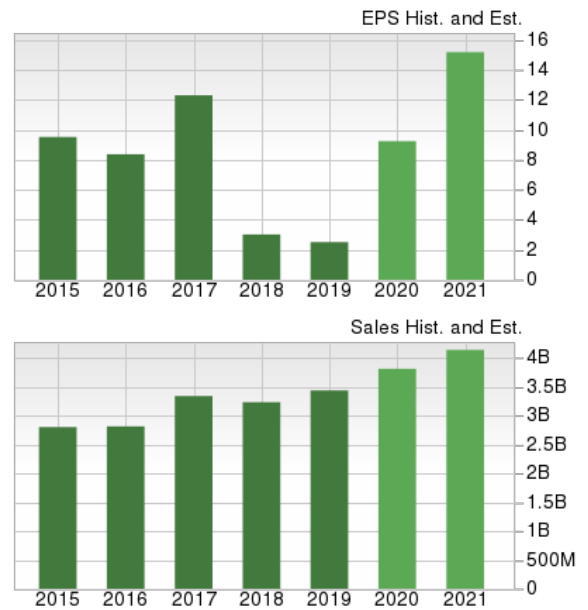
The company operates 11 hatcheries, 9 feed mills and 12 processing plants, including the facility at its new plant Tyler, Texas complex.

In fiscal 2019, the company processed approximately 623 million chickens or around 4.6 billion dressed pounds. As per industry statistics of 2019, Sanderson Farms was the third largest processor of dressed chicken in the United States based on average weekly processed pounds. The three largest customer markets in the fresh and frozen chicken industry are chill-pack retail, big bird and small birds.

The company produces a wide range of processed chicken products and prepared chicken items.

Sanderson Farms adds additional value to the processed chicken by deep chilling and packaging whole chickens in bags or combinations of fresh chicken parts, including boneless product, in various sized, individual trays under its brand name.

Sanderson Farms' chicken products are sold primarily to retailers and distributors located mainly in the southeastern, southwestern, northeastern and western United States. Also, the company sells its chicken products to casual dining operators, foreign customers, and United States based customers who resell the products outside of the continental United States.



Reasons To Buy:

▲ **Strength in Poultry Products Fuels Sales Growth:** Sanderson Farms' top line advanced 13.6% year over year in the fourth quarter of fiscal 2019, courtesy of elevated average sales prices. The company's overall market prices for poultry products increased during fiscal 2019 compared with fiscal 2018. Additionally, market prices of jumbo wings surged 19% from the prior-year quarter's figure, driven by robust seasonal demand. Also, prices for both leg quarter increased nearly 20.6% year over year. Additionally, tray pack sales prices saw slight improvement in the last reported quarter compared with the year-ago quarter's levels.

Sanderson Farms is strengthening its product portfolio by expanding its vast product pipeline. Also, higher average prices of poultry products fueled sales in the fourth quarter.

Further, management highlighted that protein prices are expected to be higher going in 2020 on the back of worldwide protein deficit caused by African swine fever's impact on Asian pork supplies. Additionally, increased promotions for chicken sandwiches at quick-serve restaurants as well as higher anticipated beef and pork prices are likely to drive growth in poultry market in 2020. Such upsides along with strong product base and impressive export sales have helped shares of the company soar 72.8% in the past year compared with the industry's growth of 39.5%.

▲ **Strong Product Base:** Sanderson Farms has been strengthening its product portfolio by adding to its vast product pipeline. The company is known for its processed and prepared chicken products available in varied sizes that are also sold in foreign markets namely Mexico, Middle East and Central Asia.

▲ **Export Sales Look Impressive:** Sanderson Farms' export demand has been more or less impressive for a while. Markedly, export sales have been rising for quite some time now. Gross export sales increased 31.8%, 19.6% and 25.8% in fiscal 2019, 2018 and 2017, respectively. In fact, management is optimistic about shipping its products to China and expects to derive material benefits from it.

▲ **Shareholder Returns:** The company's healthy cash flows have helped it return excess cash to its shareholders in the form of regular dividends and share buybacks. Notably, the company generated \$206.8 million as net cash from operating activities in fiscal 2019, up from the reported figure of \$131.4 million in fiscal 2018. Apart from this, Sanderson Farm repurchased 823,385 shares in fiscal 2018.

Reasons To Sell:

- ▼ **Drab FY20 View:** The company witnessed a sluggishness in market prices for boneless breast meat produced at plants that process a larger bird for food service customers during fiscal fourth quarter, which is expected to continue in the near term. The company continues to anticipate prices paid for grain in fiscal 2020 to be higher than fiscal 2019 level.
- ▼ **Rising Freight Costs a Worry:** Sanderson Farms' freight costs increased during the fourth quarter of fiscal 2019 on accounting changes. The metric has been increasing for the past few quarters. This can be attributable to a rise in shipping costs along with escalated costs associated with labor and antimicrobial interventions in the plant. Persistence of this trend may affect the company's bottom line in the long run.
- ▼ **Higher Feed Cost:** During the fourth quarter of fiscal 2019, Sanderson Farms' cost of sales climbed 12.4%. Although average feed costs per pound for poultry products dipped 0.9%, management anticipates prices paid for grain in fiscal 2020 to go up. Non-feed costs related cost of sales was up 18 cents per pound year over year in fiscal fourth quarter. Persistence of this trend may affect the company's margins and the bottom line in the long run.
- ▼ **Intense Competition:** The company faces stiff competition from regional and national firms on grounds of price, product quality, number of products offered, brand awareness and customer service. Even its poultry business is highly competitive. These factors may hurt its market share and dent operating results. In fact, competition from other protein suppliers is likely to keep market prices of chicken products under pressure.

Sanderson Farms grapples with rising freight costs and escalating feed costs per pound. Further, intense competition in poultry business remains a concern.

Last Earnings Report

Sanderson Farms Posts Narrower-than-Expected Q4 Loss

Sanderson Farms posted fourth-quarter fiscal 2019 results, with an adjusted net loss of 95 cents per share. The figure is narrower than a loss of \$1.63 per share reported in the year-ago quarter. The Zacks Consensus Estimate for the bottom line was pegged at a loss of \$1.33.

Net sales came in at \$906.5 million, almost in line with the Zacks Consensus Estimate. Moreover, the top line advanced 13.6% year over year.

The company witnessed sluggishness in market prices for boneless breast meat produced at plants that process a larger bird for food service customers. However, average market prices for jumbo wings and bulk leg quarters were higher as compared to the prior-year quarter.

Cost of sales escalated 12.4% to \$884.9 million. Average feed costs per pound for poultry products and broiler flock processed fell 0.9% from the year ago figure. Costs of soybean meal went down 8.4% year-over-year, while that of corn meal was up 12.8% during the same period. Soybean meal and corn are part of the company's primary feed ingredients. Further, SG&A expenses declined 12.7% to \$51.2 million in the reported quarter.

Sanderson Farms ended the quarter with cash and cash equivalents of \$95.4 million, long-term debt of \$55 million and total shareholders' equity of \$1,417.7 million.

Outlook

Management highlighted that protein prices are expected to be higher going in 2020 on the back of worldwide protein deficit caused by African swine fever's impact on Asian pork supplies. Additionally, increased promotions for chicken sandwiches at quick-serve restaurants and higher anticipated beef and pork prices are likely to aid growth in poultry market in 2020. In-fact, the company saw some improvement in poultry market prices beginning Nov, 2019.

Per the current USDA projections, the U.S. broiler production in the calendar year 2020 is expected to rise nearly 3.2% from 2019. However, the company continues to anticipate prices paid for grain in the fiscal 2020 to go up.

The company is progressing well with its operations in the Tyler facility, which is now processing at 75% capacity. Management projects Tyler to reach full capacity during second-quarter fiscal 2020.

Quarter Ending **10/2019**

Report Date	Dec 19, 2019
Sales Surprise	0.10%
EPS Surprise	28.57%
Quarterly EPS	-0.95
Annual EPS (TTM)	2.57

Recent News

Sanderson Farms Announces Regular Dividend – Sep 19, 2019

Sanderson Farms declared a regular quarterly dividend of 32 cents per share, payable on Oct 15, 2019, to shareholders of record as on Oct 1, 2019.

Valuation

Sanderson Farms shares are up 72.8% 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 1X forward 12-month sales, which compares to 0.99X for the Zacks sub-industry, 9.83X for the Zacks sector and 3.46X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.14X and as low as 0.51X, with a 5-year median of 0.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$183 price target reflects 1.05X forward 12-month sales.

The table below shows summary valuation data for SAFM

Valuation Multiples - SAFM					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1	0.99	9.83	3.46
	5-Year High	1.14	1.11	11.03	3.46
	5-Year Low	0.51	0.63	8.02	2.54
	5-Year Median	0.72	0.93	9.79	3
P/B TTM	Current	2.72	3.05	17.92	4.41
	5-Year High	2.75	3.81	20.14	4.42
	5-Year Low	1.43	2.29	11.2	2.85
	5-Year Median	1.89	2.93	16.7	3.6
EV/EBITDA F12M	Current	8.13	9.77	34.11	12.66
	5-Year High	24.71	18.63	36.97	12.66
	5-Year Low	3.9	7.49	29.14	9.08
	5-Year Median	6.5	9.64	33.26	10.78

As of 01/02/2020

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



Top Peers

Pilgrims Pride Corporation (PPC)	Outperform
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
The J. M. Smucker Company (SJM)	Neutral
Tyson Foods, Inc. (TSN)	Neutral

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	SAFM Neutral	X Industry	S&P 500	HRL Neutral	PPC Outperform	TSN Neutral
VGM Score	B	-	-	C	A	A
Market Cap	3.86 B	3.86 B	23.76 B	23.69 B	8.03 B	32.86 B
# of Analysts	4	1	13	6	2	5
Dividend Yield	0.73%	0.00%	1.78%	1.90%	0.00%	1.87%
Value Score	B	-	-	C	B	A
Cash/Price	0.02	0.08	0.04	0.03	0.08	0.01
EV/EBITDA	17.68	14.75	13.97	16.70	12.81	10.57
PEG Ratio	NA	1.16	2.02	4.16	0.59	1.16
Price/Book (P/B)	2.72	2.23	3.38	4.00	3.45	2.31
Price/Cash Flow (P/CF)	18.97	10.63	13.70	21.33	13.43	10.63
P/E (F1)	18.85	14.58	18.83	25.20	13.22	13.33
Price/Sales (P/S)	1.12	0.80	2.68	2.49	0.73	0.77
Earnings Yield	5.30%	6.90%	5.30%	3.97%	7.55%	7.50%
Debt/Equity	0.04	0.04	0.72	0.04	1.08	0.69
Cash Flow (\$/share)	9.19	2.40	6.94	2.08	2.40	8.46
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	-27.22%	-12.67%	10.56%	8.16%	-13.27%	17.30%
Proj. EPS Growth (F1/F0)	268.33%	16.04%	7.41%	1.05%	39.94%	23.63%
Curr. Cash Flow Growth	3.93%	-11.27%	14.83%	-8.04%	-40.11%	-3.73%
Hist. Cash Flow Growth (3-5 yrs)	-8.98%	6.68%	9.00%	8.67%	-3.14%	13.92%
Current Ratio	2.69	1.82	1.23	2.14	1.82	1.30
Debt/Capital	3.73%	4.05%	42.92%	4.05%	51.87%	40.86%
Net Margin	1.55%	4.01%	11.08%	10.31%	3.24%	4.77%
Return on Equity	3.94%	14.01%	17.10%	16.14%	17.87%	14.53%
Sales/Assets	1.97	1.46	0.55	1.18	1.73	1.29
Proj. Sales Growth (F1/F0)	10.91%	5.15%	4.20%	1.52%	NA	9.34%
Momentum Score	B	-	-	B	B	A
Daily Price Chg	-1.14%	-1.18%	0.33%	-1.77%	-1.64%	-1.18%
1 Week Price Chg	-0.46%	-0.46%	0.13%	0.67%	0.67%	0.62%
4 Week Price Chg	3.97%	2.44%	3.31%	-3.17%	-0.34%	0.57%
12 Week Price Chg	18.30%	7.94%	9.70%	6.34%	4.89%	9.55%
52 Week Price Chg	73.14%	48.19%	30.28%	6.31%	105.36%	65.11%
20 Day Average Volume	337,348	55,430	1,603,615	1,851,567	617,386	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	15.49%	1.51%	0.00%	0.00%	6.10%	3.02%
(F1) EPS Est 12 week change	-4.72%	-0.92%	-0.57%	-0.99%	11.19%	0.82%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	-21.43%	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	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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