

Sanderson Farms, Inc. (SAFM)

\$130.04 (As of 03/09/20)

Price Target (6-12 Months): **\$111.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/08/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Sanderson Farms' shares have underperformed the industry in the past three months. For first-quarter fiscal 2020, the company reported a wider-than-expected loss, which worsened year over year. During the quarter, Sanderson Farms witnessed sluggishness in market prices for boneless breast meat produced at plants that process a larger bird for food service customers. Apart from this, the company has been grappling with high feed and labor costs. Nonetheless, Sanderson Farms has been benefiting from strength in poultry products, which drove sales during first-quarter fiscal 2020. The company is optimistic about demand and prices for its poultry products in 2020 on the back of worldwide protein deficit caused by the impact of the African swine fever on Asian pork supplies.

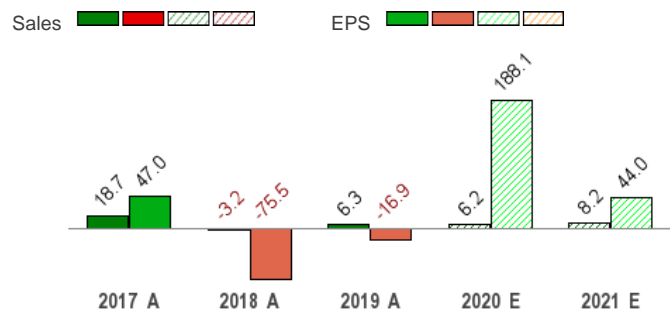
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$179.45 - \$117.17
20 Day Average Volume (sh)	523,331
Market Cap	\$2.9 B
YTD Price Change	-26.2%
Beta	0.81
Dividend / Div Yld	\$1.28 / 1.0%
Industry	Food - Meat Products
Zacks Industry Rank	Bottom 17% (210 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-137.8%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-24.8%
Expected Report Date	06/04/2020
Earnings ESP	0.0%
P/E TTM	79.8
P/E F1	18.0
PEG F1	NA
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,955 E
2020	823 A	888 E	970 E	973 E	3,654 E
2019	743 A	845 A	945 A	906 A	3,440 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$10.41 E
2020	-\$1.76 A	\$1.25 E	\$1.86 E	\$2.56 E	\$7.23 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

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.

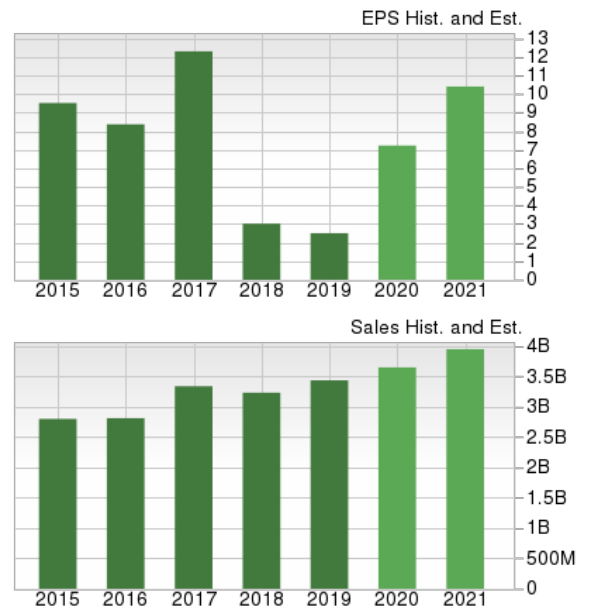
The company operates 11 hatcheries, 9 feed mills and 12 processing plants, including the facility at its new plant Tyler, Texas complex.

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 Sell:

▼ **Q4 Loss Widens, Stock Underperforms:** Shares of Sanderson Farms have decreased 20.7% in the past three months compared with the industry's decline of 18.8%. The stock got a further hit following its first-quarter fiscal 2020 results. The company reported a net loss of \$1.76 per share, which was wider than the Zacks Consensus Estimate of a loss of 74 cents. Also, the figure is wider than a loss of 82 cents reported in the year-ago quarter. During the quarter, the company witnessed sluggishness in market prices for boneless breast meat produced at plants that process a larger bird for food service customers.

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

▼ **Rising Labor Costs a Worry:** Sanderson Farms has been seeing rising labor costs for the past few quarters now. During the first quarter of fiscal 2020, the company's labor costs rose \$31.7 million or \$1.67 per pound. Also, fixed costs were up \$8 million. Persistence of this trend remains a threat.

▼ **Higher Feed Cost:** During the first quarter of fiscal 2020, Sanderson Farms' cost of sales escalated 16.3% to \$823.5 million on increased pounds sold and higher average cost of goods sold. Average feed costs per pound for poultry products increased 6.3%. Cost of corn meal went up 10.1%, while cost of soybean meal declined 2.3% in the quarter. Soybean meal and corn are part of the company's primary feed ingredients. Also, non-feed cost of goods sold increased \$74.3 million or \$2.7 per pound. Persistence of such trends may affect margins.

▼ **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.

Risks

- **Strength in Poultry Products Fuels Sales Growth:** Sanderson Farms' top line advanced 10.7% year over year in the first quarter of fiscal 2020, courtesy of elevated average market prices for poultry products. The company's overall market prices for poultry products increased 4% year over year during the quarter, thanks to impressive demand. Market prices of jumbo wings surged from the prior-year quarter, driven by robust seasonal demand. Also, average prices for both leg quarter increased from \$25.7 per pound to \$31.5 per pound.

The company is optimistic about demand and prices for its poultry products in the domestic and export markets. Domestically, the company foresees continued demand in the retail grocery stores. Further, increased promotions for chicken at quick-serve restaurants are likely to drive growth in the poultry market in 2020. Per current USDA projections, chicken production in the industry during calendar-year 2020 is expected to rise more than 4.3% from 2019 levels. Apart from this, the company anticipates a healthy demand and supply balance for corn and soybean meal in 2020. Moreover, Sanderson Farms is progressing well with its operations in the Tyler facility. Management projects Tyler to reach full capacity during second-quarter fiscal 2020.

- **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.

With regard to the export market, the company is optimistic about demand and prices for its poultry products, courtesy of worldwide protein deficit stemming from the African swine fever's impact on Asian pork supplies. Also, since China lifted the ban on the import of U.S. chicken at the end of 2019, Sanderson Farms has received orders for roughly 18 million pounds of chicken products.

Last Earnings Report

Sanderson Farms' Loss Wider Than Estimates in Q1

Sanderson Farms posted wider-than-expected loss when it reported first-quarter fiscal 2020 results. The company reported net loss of \$1.76 per share, which was wider than the Zacks Consensus Estimate of a loss of 74 cents. Also, the figure is wider than a loss of 82 cents reported in the year-ago quarter.

Net sales came in at \$823.1 million, which surpassed the Zacks Consensus Estimate of \$804.8 million. Also, the top line advanced 10.7% year over year.

Cost of sales escalated 16.3% to \$823.5 million on increased pounds sold and higher average cost of goods sold. Average feed costs per pound for poultry products increased 6.3%. Costs of corn meal went up 10.1%, while costs of soybean meal declined 2.3% in the quarter. Soybean meal and corn are part of the company's primary feed ingredients. Further, SG&A expenses declined 15.5% to \$49.5 million in the reported quarter.

Balance Sheet/Cash Flow

Sanderson Farms ended the quarter with cash and cash equivalents of \$63.4 million, long-term debt of \$165 million and total shareholders' equity of \$1,369.4 million.

Outlook

The company is optimistic about demand and prices for its poultry products courtesy of worldwide protein deficit stemming from African swine fever's impact on Asian pork supplies. Also, since China lifted the ban on the import of U.S. chicken at the end of 2019, Sanderson Farms has received orders for roughly 18 million pounds of chicken products. However, management is witnessing some disruptions in China stemming from the outbreak of coronavirus.

Apart from these factors, increased promotions for chicken at quick-serve restaurants are likely to drive growth in poultry market in 2020. Per the current USDA projections, chicken production in the industry during calendar year 2020 is expected to rise more than 4.3% from 2019 levels.

Further, the company anticipates a healthy demand as well as supply balance for corn and soybean meal in 2020. Moreover, Sanderson Farms is progressing well with its operations in the Tyler facility. Management projects Tyler to reach full capacity during second-quarter fiscal 2020.

Quarter Ending **01/2020**

Report Date	Feb 27, 2020
Sales Surprise	2.27%
EPS Surprise	-137.84%
Quarterly EPS	-1.76
Annual EPS (TTM)	1.63

Recent News

Sanderson Farms Announces Regular Dividend – Jan 16, 2020

Sanderson Farms declared a regular quarterly dividend of 32 cents per share, payable on Feb 11, 2020, to shareholders of record as on Jan 28, 2020.

Valuation

Sanderson Farms's shares are down 26.2% in the year-to-date period and up 4.4% over the trailing 12-month period. Stocks in the Zacks sub-industry sector are down 23.3% and the Zacks Consumer Staples is down 12.8% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector were down 4% and 4.2%, respectively.

The S&P 500 index is down 14.8% in the year-to-date period and 2.4% in the past year.

The stock is currently trading at 0.77X forward 12-month sales, which compares to 0.77X for the Zacks sub-industry, 8.77X for the Zacks sector and 2.91X 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 0.74X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$111 price target reflects 0.66X 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	0.77	0.77	8.77	2.91
	5-Year High	1.14	1.11	11.13	3.44
	5-Year Low	0.51	0.63	8.09	2.54
	5-Year Median	0.74	0.93	9.87	3
P/B TTM	Current	2.11	2.27	11.42	3.69
	5-Year High	2.75	3.81	20.26	4.56
	5-Year Low	1.43	2.27	11.28	2.85
	5-Year Median	1.9	2.93	16.78	3.63
EV/EBITDA F12M	Current	9.63	9.82	33.36	12.34
	5-Year High	24.71	18.63	37.22	14.18
	5-Year Low	3.99	7.49	29.4	9.08
	5-Year Median	6.62	9.69	33.65	10.82

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 253)



Top Peers

Conagra Brands Inc. (CAG)	Neutral
General Mills, Inc. (GIS)	Neutral
Hormel Foods Corporation (HRL)	Neutral
Post Holdings, Inc. (POST)	Neutral
Pilgrims Pride Corporation (PPC)	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		
	SAFM Underperform	X Industry	S&P 500	HRL Neutral	PPC Neutral	TSN Underperform
VGM Score	F	-	-	D	B	A
Market Cap	2.89 B	2.89 B	19.13 B	23.34 B	5.02 B	22.22 B
# of Analysts	3	2.5	13	6	2	4
Dividend Yield	0.98%	0.00%	2.26%	2.14%	0.00%	2.76%
Value Score	D	-	-	D	A	A
Cash/Price	0.02	0.05	0.05	0.03	0.05	0.02
EV/EBITDA	14.02	10.96	11.99	16.45	6.96	7.89
PEG Ratio	NA	1.17	1.68	3.88	0.62	1.17
Price/Book (P/B)	2.11	1.42	2.64	3.81	1.98	1.53
Price/Cash Flow (P/CF)	14.16	7.21	10.70	20.90	7.21	7.19
P/E (F1)	17.90	11.39	15.44	24.67	8.90	9.79
Price/Sales (P/S)	0.82	0.59	2.05	2.45	0.44	0.52
Earnings Yield	5.56%	8.96%	6.47%	4.05%	11.24%	10.22%
Debt/Equity	0.15	0.15	0.70	0.05	0.99	0.67
Cash Flow (\$/share)	9.19	2.79	7.01	2.08	2.79	8.46
Growth Score	F	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	-31.11%	-12.18%	10.85%	6.96%	-13.01%	15.34%
Proj. EPS Growth (F1/F0)	187.92%	12.61%	6.25%	1.15%	39.51%	13.92%
Curr. Cash Flow Growth	3.93%	-5.88%	6.09%	-8.04%	16.70%	-3.73%
Hist. Cash Flow Growth (3-5 yrs)	-8.98%	3.13%	8.52%	8.67%	-4.98%	13.92%
Current Ratio	2.93	1.58	1.24	2.34	1.58	1.30
Debt/Capital	12.75%	12.75%	42.57%	4.82%	49.76%	40.15%
Net Margin	0.92%	4.71%	11.69%	10.30%	4.00%	4.71%
Return on Equity	2.47%	13.48%	16.74%	15.90%	17.49%	14.36%
Sales/Assets	1.97	1.29	0.54	1.18	1.72	1.29
Proj. Sales Growth (F1/F0)	6.20%	2.56%	3.76%	2.03%	0.00%	6.78%
Momentum Score	F	-	-	D	D	B
Daily Price Chg	-0.04%	-2.51%	-7.65%	-1.23%	-6.51%	-5.83%
1 Week Price Chg	5.28%	-2.34%	-0.67%	5.65%	1.65%	-4.69%
4 Week Price Chg	-7.07%	-20.56%	-19.26%	-8.28%	-24.09%	-25.37%
12 Week Price Chg	-22.14%	-24.57%	-17.26%	-3.25%	-37.59%	-32.32%
52 Week Price Chg	4.36%	-0.39%	-6.83%	1.07%	-1.85%	-5.20%
20 Day Average Volume	523,331	102,461	2,684,709	2,594,136	1,074,326	3,287,674
(F1) EPS Est 1 week change	-13.27%	0.00%	0.00%	0.00%	0.00%	0.48%
(F1) EPS Est 4 week change	-24.82%	-1.98%	-0.06%	0.09%	-7.76%	-1.24%
(F1) EPS Est 12 week change	-9.72%	-2.32%	-0.46%	0.09%	-1.53%	-6.80%
(Q1) EPS Est Mthly Chg	8.26%	0.00%	-0.40%	-0.40%	NA	0.00%

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	D
Growth Score	F
Momentum Score	F
VGM Score	F

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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