

## Sanderson Farms, Inc. (SAFM)

**\$118.00** (As of 08/11/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

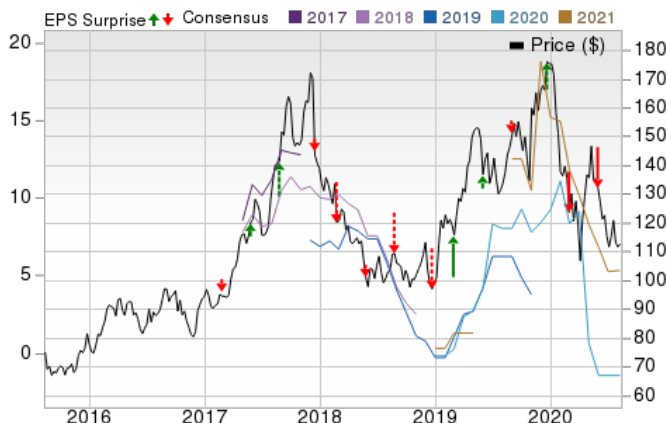
Growth: B

Momentum: D

## Summary

Shares of Sanderson Farms have declined and underperformed the industry year to date. The company has been incurring higher operating expenses thanks to the coronavirus outbreak. Also, its second-quarter fiscal 2020 loss was wider-than-expected. Moreover, sales missed the Zacks Consensus Estimate and declined year over year. Further, due to the coronavirus pandemic, Sanderson Farms is likely to take certain planned production cuts at its food service units for the remaining half of fiscal 2020. Notably, lower production along with higher expenses is likely to persist until situations induced by the pandemic improve. Nevertheless, Sanderson Farms' average feed costs per pound of poultry products declined during the quarter. Also, management projects feed grain costs to decrease year over year for the remaining half of fiscal 2020.

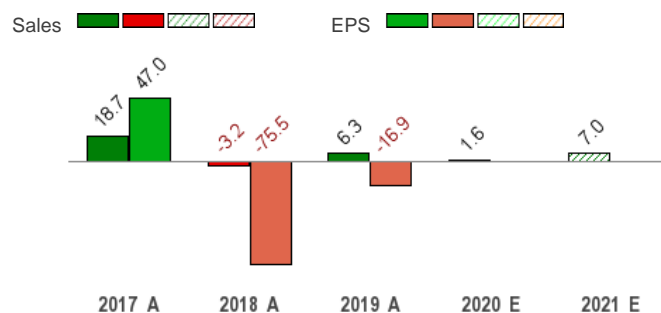
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$179.45 - \$102.13
20 Day Average Volume (sh)	270,856
Market Cap	\$2.6 B
YTD Price Change	-33.0%
Beta	0.59
Dividend / Div Yld	\$1.28 / 1.1%
Industry	<a href="#">Food - Meat Products</a>
Zacks Industry Rank	Bottom 22% (198 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-78.8%
Last Sales Surprise	-3.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/27/2020
Earnings ESP	0.0%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,737 E
2020	823 A	845 A	922 E	904 E	3,494 E
2019	743 A	845 A	945 A	906 A	3,440 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$5.30 E
2020	-\$1.76 A	-\$1.43 A	\$0.69 E	-\$0.41 E	-\$1.45 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	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

## 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.

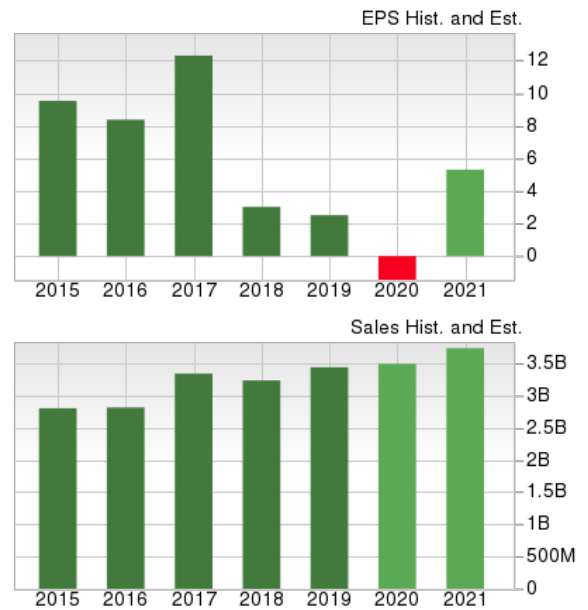
The company operates 11 hatcheries, 9 feed mills and 12 processing plants, including the facility at its new plant Tyler, Texas complex.

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.



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## Reasons To Buy:

▲ **Efforts to Enhance Capacity:** Sanderson Farms efforts to expand capacity bode well. In this regard, the company constructed a new poultry processing complex in Tyler, Texas. The facility, which started operations during first-quarter fiscal 2019, includes a feed mill, hatchery, waste water treatment facility and a processing plant with the capacity to process 1.3 million chickens per week. Moreover, during its last earnings call, management stated that it is impressed with the facility's first-year performance.

Sanderson Farms' feed cost during the second quarter of fiscal 2020 declined.

▲ **Lower Feed Cost:** During second-quarter fiscal 2020, Sanderson Farms' average feed costs per pound for poultry products inched down 1.1%. Although costs of corn meal increased 2.8%, costs of soybean meal declined 1.3% in the quarter. Soybean meal and corn are part of the company's primary feed ingredients. Further, management anticipates feed grain costs to decline year over year for the remaining half of fiscal 2020.

▲ **Dividend on Track:** At a juncture where many companies have suspended dividends to preserve financial flexibility amid the crisis, Sanderson Farms declared a regular quarterly dividend of 32 cents per share on Jul 16, 2020. This reflects the company's commitment toward shareholders.

▲ **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.

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## Reasons To Sell:

▼ **Dismal Q2 Results, Stock Underperforms:** Shares of Sanderson Farms have lost 32.6% in the year-to-date period, compared with the industry's decline of 10.5%. The company reported second-quarter fiscal 2020 net loss of \$1.43 per share, which was wider than the Zacks Consensus Estimate of a loss of 80 cents. Sanderson Farms reported earnings of \$1.83 per share in the year-ago quarter. Moreover, net sales came in at \$844.7 million, which missed the consensus mark. Further, the metric was \$845.2 million in the year-ago quarter. During the fiscal second quarter, boneless breast meat market prices declined nearly 18% year over year. Moreover, average market price for bulk leg quarters and jumbo wing prices were lower by 7.8% and 23.1%, respectively.

Sanderson Farms grapples with rising operating costs and lower food service demand amid COVID-19.

▼ **Dull Outlook:** Per the current USDA projections, broiler production in the industry during calendar year 2020 is expected to decline 0.3% from 2019 levels. The downside will be caused by the coronavirus outbreak and its adverse impact on food service demand. In this regard, the company is likely to take certain planned production cuts at its food service units for the remaining half of fiscal 2020.

Apart from these, the company has been incurring increased operating costs related to higher employee expenses amid the COVID-19 outbreak. Notably, reduced production along with increased operating costs is likely to persist until situations induced by the coronavirus pandemic improve.

▼ **Debt Analysis:** Sanderson Farms' long-term debt (including long-term lease liability) of \$231 million as of Apr 30, 2020, increased 15.3% from the preceding quarter. The company's debt-to-capitalization ratio of 0.15 stands slightly higher than the preceding quarter's figure of 0.14.

▼ **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.

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## Last Earnings Report

### Sanderson Farms' Loss Wider Than Estimates in Q2

Sanderson Farms posted wider-than-expected loss when it reported second-quarter fiscal 2020 results. Moreover, the top line missed the Zacks Consensus Estimate.

During the fiscal second quarter, boneless breast meat market prices declined nearly 18% year over year. Moreover, average market price for bulk leg quarters and jumbo wing prices were lower by 7.8% and 23.1%, respectively. Meanwhile, Sanderson Farms witnessed a significant shift in consumer demand from food service to retail grocery store consumers amid the coronavirus crisis.

Quarter Ending **04/2020**

Report Date	<b>May 28, 2020</b>
Sales Surprise	<b>-3.16%</b>
EPS Surprise	<b>-78.75%</b>
Quarterly EPS	<b>-1.43</b>
Annual EPS (TTM)	<b>-1.63</b>

### Q2 in Detail

The company reported net loss of \$1.43 per share, which was wider than the Zacks Consensus Estimate of a loss of 80 cents. Sanderson Farms had reported earnings of \$1.83 per share in the year-ago quarter.

Net sales came in at \$844.7 million, which missed the Zacks Consensus Estimate of \$872 million. The metric came in at \$845.2 million in the year-ago quarter.

### Costs/Margins

Cost of sales increased 12.4% to \$832.3 million. Average feed costs per pound for poultry products inched down 1.1%. Costs of corn meal increased 2.8%, while costs of soybean meal declined 1.3% in the quarter. Soybean meal and corn are part of the company's primary feed ingredients. Further, SG&A expenses rose 14.2% to \$56.2 million in the reported quarter.

### Balance Sheet

Sanderson Farms ended the quarter with cash and cash equivalents of \$61.3 million, long-term debt of \$200 million and total shareholders' equity of \$1,371.4 million.

### Outlook

Per the current USDA projections, broiler production in the industry during calendar year 2020 is expected to decline 0.3% from 2019 levels. The downside will be caused by the coronavirus outbreak and its adverse impacts on food service demand. In this regard, the company is likely to take certain planned production cuts at its food service units for the remaining half of fiscal 2020. Notably, management expects total production during the fiscal third and the fiscal fourth quarters to be up 2.2% and down 5%, respectively.

Apart from these, the company has been incurring increased operating costs related to higher employee expenses amid the COVID-19 outbreak. Notably, reduced production along with increased operating costs is likely to persist until situations induced by the coronavirus pandemic improve. Nevertheless, management anticipates feed grain costs to decline year over year for the remaining half of fiscal 2020.

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## Recent News

### Sanderson Farms Announces Regular Dividend – Jul 16, 2020

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

## Valuation

Sanderson Farms' shares are down 32.6% in the year-to-date period and 16.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 10.5% and the Zacks Consumer Staples declined 6.1% in the year-to-date period. Over the past year, the Zacks sub-industry is down 12.7% while the sector declined 2.6%.

The S&P 500 index is up 5.3% in the year-to-date period and 17.1% in the past year.

The stock is currently trading at 0.71X forward 12-month sales, which compares to 0.95X for the Zacks sub-industry, 9.46X for the Zacks sector and 3.67X 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 0.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$124 price target reflects 0.75X 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	0.71	0.95	9.46	3.67
	5-Year High	1.14	1.11	11.15	3.67
	5-Year Low	0.51	0.63	8.1	2.53
	5-Year Median	0.75	0.95	9.89	3.05
P/B TTM	Current	1.91	2.51	11.81	4.68
	5-Year High	2.75	3.81	20.29	4.68
	5-Year Low	1.43	2.06	9.14	2.83
	5-Year Median	1.92	3.06	16.47	3.74
EV/EBITDA F12M	Current	13.18	10.51	32.76	13.18
	5-Year High	24.71	19.94	37.28	14.2
	5-Year Low	4.1	7.49	25.89	9.15
	5-Year Median	7.03	9.85	33.7	11.01

As of 08/11/2020

## Industry Analysis Zacks Industry Rank: Bottom 22% (198 out of 253)



## 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
Pilgrims Pride Corporation (PPC)	Neutral	5
The J. M. Smucker Company (SJM)	Neutral	4
Post Holdings, Inc. (POST)	Underperform	5

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	SAFM	X Industry	S&P 500	HRL	PPC	TSN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	5	2
VGM Score	C	-	-	C	A	A
Market Cap	2.62 B	4.00 B	23.61 B	27.71 B	4.00 B	23.80 B
# of Analysts	1	3	14	6	2	5
Dividend Yield	1.08%	0.00%	1.69%	1.81%	0.00%	2.58%
Value Score	C	-	-	C	A	A
Cash/Price	0.02	0.06	0.07	0.02	0.14	0.06
EV/EBITDA	12.94	7.25	13.32	19.48	6.05	8.45
PEG Ratio	NA	3.11	2.95	4.14	2.07	NA
Price/Book (P/B)	1.91	1.59	3.22	4.48	1.69	1.59
Price/Cash Flow (P/CF)	12.85	7.36	12.79	24.75	5.88	7.70
P/E (F1)	NA	22.48	22.02	31.06	13.90	13.62
Price/Sales (P/S)	0.75	0.62	2.57	2.89	0.34	0.56
Earnings Yield	-1.23%	3.21%	4.29%	3.21%	7.20%	7.35%
Debt/Equity	0.17	0.05	0.77	0.01	1.19	0.75
Cash Flow (\$/share)	9.19	2.08	6.94	2.08	2.79	8.46
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	-31.56%	-7.08%	10.41%	5.79%	-13.84%	10.07%
Proj. EPS Growth (F1/F0)	-157.77%	-12.37%	-6.51%	-4.89%	-27.16%	-12.31%
Curr. Cash Flow Growth	3.93%	-5.88%	5.22%	-8.04%	16.70%	-3.73%
Hist. Cash Flow Growth (3-5 yrs)	-8.98%	3.13%	8.55%	8.67%	-4.98%	13.92%
Current Ratio	3.04	1.89	1.34	1.70	1.89	1.80
Debt/Capital	14.40%	4.34%	44.59%	0.91%	54.38%	42.91%
Net Margin	-0.06%	2.24%	10.13%	9.64%	2.24%	4.26%
Return on Equity	-2.65%	7.89%	14.59%	15.38%	7.89%	12.63%
Sales/Assets	1.91	1.26	0.51	1.17	1.67	1.26
Proj. Sales Growth (F1/F0)	1.57%	1.57%	-1.45%	2.12%	0.00%	2.32%
Momentum Score	D	-	-	D	D	F
Daily Price Chg	1.55%	0.00%	-0.17%	-1.10%	1.67%	1.01%
1 Week Price Chg	0.95%	0.65%	2.30%	1.49%	0.65%	2.20%
4 Week Price Chg	0.98%	4.73%	6.41%	4.73%	1.05%	10.88%
12 Week Price Chg	-11.93%	4.44%	15.42%	8.48%	-19.73%	11.74%
52 Week Price Chg	-17.54%	-24.98%	2.88%	23.02%	-44.43%	-25.75%
20 Day Average Volume	270,856	270,856	2,007,486	1,346,646	1,137,060	2,239,269
(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%	1.84%	0.00%	-35.17%	8.08%
(F1) EPS Est 12 week change	-165.93%	-5.16%	2.40%	-5.16%	1.72%	-0.46%
(Q1) EPS Est Mthly Chg	0.00%	-6.79%	0.72%	0.00%	NA	-6.79%

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## 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.

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### 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	C
Growth Score	B
Momentum Score	D
VGM Score	C

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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