

Company Overview

Kraft Heinz is a multinational food and beverage company that sells products in over 190 countries. The company is a result of merger between Kraft Foods and H.J. Heinz Holding Corporation in 2015. The food and beverage products are sold via various retailing channels, both online and offline. Its largest customer, Walmart Inc, accounts for more than 20% of its net sales.

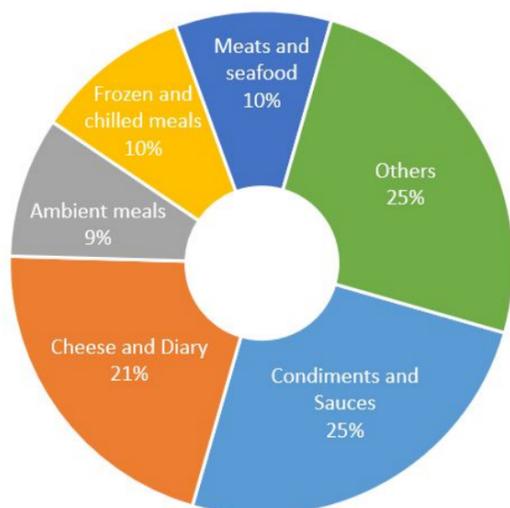
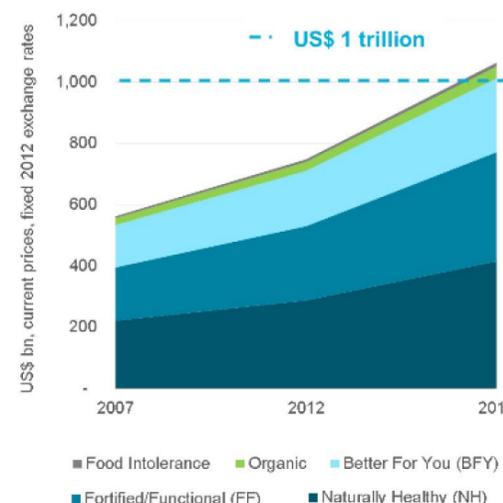


Figure 1. Revenue by products

Source: Kraft Heinz 2017 Annual Report

(USD\$ M)	FY17A	FY18E	FY19E	FY20E
Revenue	26,232.0	27,168.1	27,654.3	28,399.2
Gr Rate (%)	-	3.57	1.79	2.69
EBITDA	8,390.7	8,053.21	8,545.56	8,759.24
Margin (%)	32.0	29.6	30.9	30.8
Net Income	10,027.0	7607.1	8296.3	8519.8
Margin (%)	38	28	30	30
ROA	3.47	3.77	3.93	3.93
ROE	16.66	6.28	6.48	6.48
EV/EBITDA	13.2x	11.9x	11.4x	11.4X
P/E Ratio	8.69	15.4	12.7	12.2
Debt/EBITDA	3.77	4.09	3.76	3.52

12M Industry Outlook



- The booming “grab and go” culture** - In today’s food market, convenience is taking a significant place in people’s preference. On-and-go offering becomes increasingly popular, fueling the takeaway market. As a result, the demand for packaged and seasoned food like frozen meals will continue to rise, implying revenue growth for companies selling condiments and frozen or prepared food. The ready meal market has been estimated to grow at 3% CAGR by Statista.
- Advertising on Transparency** - The new generation of young consumers are now “clean eaters”: They are keen to know every detail about the product they buy. More than 70% of the US consumers said they always take transparency into account when buying food. Advertisements target more on company’s clean labeling and sustainability efforts. Efforts to show how and where the food is made is a potential way for firms to grow their profit in the near future.
- Healthier choice continue to shine** - The promotion of healthy lifestyle will still be very popular in the upcoming years. More people tend to lower sugar intake than to lower sodium intake. Overall, healthier food market is expected to grow at a CAGR of 6 % per year, and grow by \$280bn from 2018 to 2022. Healthier food offerings mainly on ambient meals / frozen and chilled foods / nuts among Kraft Heinz and its competitors. The booming market could potentially generate more revenue for food and beverage companies.

Investment Thesis

- Evolving product mix.** Heinz Ketchup sales has increased 5% PA since 2015 and we expect this growth to continue with their established brand name. Innovations in 45.4% of their product segment aiming to reduce preservatives and increase quality to target the health conscious segment, is expected to have a 1.5% growth in revenue. We also project an improvement in top line by the revamp of Kraft’s frozen food segments via devour and smart made products.
- Data-driven marketing strategy to reach end consumers.** Kraft Heinz has focused on building a strong brand image by running targeted advertisements on digital platforms like Super Bowl. The branding strategy has been successful with key customer metrics like cost of impression decreasing 40% and Return on Ad spend increasing by ~123% which will translate to both top and bottom line improvements.
- Best-in-class Inventory Operations initiatives.** Since 2015, Kraft focused investing on cost cutting initiatives to boost bottom-line margins. Efforts include automating manual work, implementing enterprise resource planning systems and data-driven optimisation of supply chains. These efforts have have effective, with significant reduction in operating costs of 5% since 2015 and a working capital efficiency improvement of 5.9pp which will ultimately boost net income.

Valuations

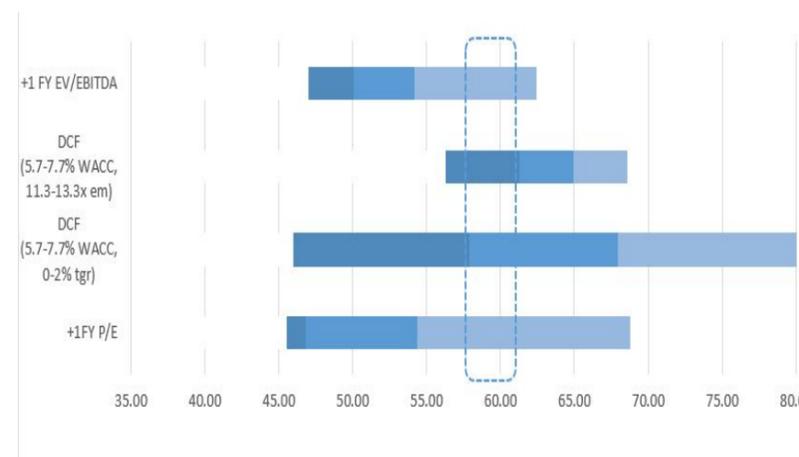


Fig 4 Football field valuation

Our blended 5-Year DCF Based 12 Month price target from date of coverage is \$60.37 USD, assuming a terminal growth rate of 1% from 2023E and a weighted average cost of capital of 6.66%. Our revenue projections for 2018/19/20E were 3.57/1.79/2.69% respectively. This was based on separate growth forecasts of Kraft Heinz’s evolving product mix and aggressive marketing strategies.

A +1FY PE of 15.6x and a +1FY Ev/Ebitda 12.0x derived from comps were used in computing their TP. TP was blended with the DCF price at equal weightage each to attain a \$60.37 TP, with 12.96% upside.

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