

Company Overview

Hormel Foods Corporation is an American company that manufactures and markets consumer-branded meat and food products. The company processes meat and poultry products and produces a variety of prepared foods. Its business is operated through 4 segments: Grocery products, Refrigerated foods, Jennie-O Turkey store and International and others.

(\$ \$ M)	FY17A	FY18A	FY19E	FY20E
Revenue	9167.5	9545.7	9519.7	9747.1
Gr Rate (%)	-	4.13	-0.27	2.39
EBITDA	1417.2	1373.3	1337.4	1346.3
Margin (%)	15.46	14.39	14.05	13.81
Net Income	846.5	1026.1	945.5	943.7
Margin (%)	9.23	10.75	9.93	9.68
ROA	12.69	13.39	11.78	11.54
ROE	18.23	19.15	17.29	15.34
EV/EBITDA	11.23x	16.25x	16.08x	15.97x
P/E Ratio	19.36	21.83	23.42	23.14

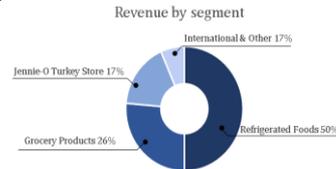


Figure 1. Hormel's revenue by segments

Category	Sub-category
Grocery Products	Jennie-O Turkey store
· Shelf stable food products	· Turkey products
· Nutrition products	
Refrigerated Foods	International & others
· Frozen poultry	· Products sold outside US

Figure 2. Products sold under each segment

Investment Thesis

- Leading market position and entrenched supply chain.** Leverage on existing supply chains to launch new products in a cost-effective manner as they benefit from exceptional retailer relationships. Economies of scale allows them to achieve lower production costs as compared to smaller rivals. Evidently leading with NPM of 10.2% against competitors' average of 3.9%.
- Shifting product mix to capture growing market segments.** Portfolio includes market leading brands such as Natural choices. With the growing prominence of plant-based and organic deli meat in the consumer market, Hormel has made use of its strong brand name to tap on these segments and introduced new product mixes such as Happy Little Plant to its portfolio.
- Strategic acquirer of successful businesses to maintain competitive advantage.** Hormel has continuously been acquiring well-established brands due to its strong financial footing and a 3.5 billion credit line. Total debt was 0.2X of TTM EBITDA at fiscal 3Q'19 as compared to peer median of 3X. This allows them to have a first mover's advantage in increasing their market share to gain an edge over their competitors.

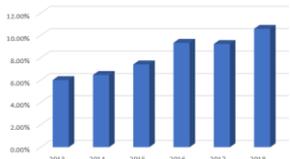


Figure 3. Profit margins over the years

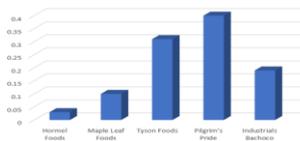


Figure 4. Debt/EV against competitors

12M Industry Outlook

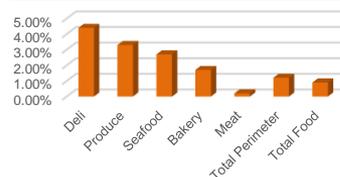


Figure 5. Retail Deli Growth

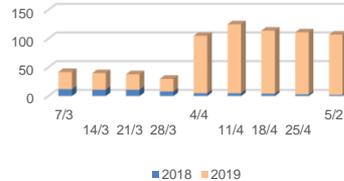


Figure 6. Total Pork Outstanding Export Sales to China

- Growing prominence of plant-based meat :** Euromonitor projects that the plant-based alternative-meat market will continue to grow annually, reaching \$2.8 billion by 2023. Meanwhile, 57% of Americans are incorporating plant-based protein into their diet. The shift in diet preference will provide the tailwind to propel the sales of Hormel's array of plant-based products under their brand Happy Little Plants.
- Deli's segment strong performance:** The deli meat market is forecasted to grow by US\$114 billion from 2019-2023, at an 11% CAGR. Retailers are dedicating more store area to this fast growth avenue to address consumers' preferences for quick and quality food options. This would further boost Hormel's revenues in the Deli segment which is already its fastest growing segment.
- Spill-over effect of ASF:** Asian Swine Flu outbreaks has caused China's pork production to fall by 25% and hog prices to spike. Sales would be negatively affected in the short term. Hormel has managed to mitigate this impact as 96% of their hogs are bought under supply contracts.

Valuations

12M blended price target stands at \$45.60 USD, implied upside of +12.60% based on last closing price of \$40.50USD as at valuation date.

Blend consists of:

- Equity valuation using 2 years forward looking EV/EBITDA average of 16.08x which implies estimated share price of \$43.08.
- Hormel's competitors 2 years average P/E of 30.75x which implies estimated share price of \$53.20.
- Hormel's +1FY P/E of 23.42x which implies estimated share price of \$40.52.

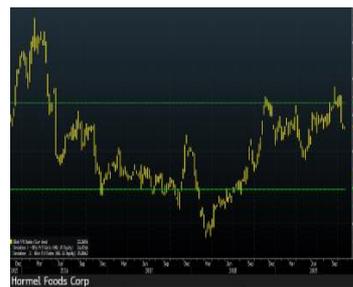


Figure 7. 1 Year Forward P/E Ratio

Key values:
EPS (TTM) - \$1.73
EBITDA (TTM) - \$1.473B
Net Debt - \$0.25B