



# The Hershey Company (HSY)

Updated June 3<sup>rd</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b> \$90	<b>5 Year CAGR Estimate:</b> 11.4%	<b>Quality Percentile:</b> N/A
<b>Fair Value Price:</b> \$100	<b>5 Year Growth Estimate:</b> 6.4%	<b>Momentum Percentile:</b> N/A
<b>% Fair Value:</b> 90%	<b>5 Year Valuation Multiple Estimate:</b> 2.1%	<b>Total Return Percentile:</b> N/A
<b>Dividend Yield:</b> 2.9%	<b>5 Year Price Target:</b> \$136	<b>Valuation Percentile:</b>

## Overview & Current Events

The Hershey Company is chocolate and sugar confectionary products manufacturer that sells brands such as Hershey's and Reese's. Hershey operates in North America as well as internationally, the company is headquartered in Hershey, PA. Hershey's history dates back to 1894. The company has a market capitalization of \$18.8 billion.

Hershey's most recent quarterly results were announced on April 26. The company recorded earnings per share of \$1.41, an increase of 9% year-over-year. Hershey was able to grow its revenues by 4% during Q1 and has guided for net sales growth of 5% to 7% during 2018. Earnings per share growth is forecasted to accelerate to 13% (versus FY 2017), as Hershey guides for (adjusted) EPS of \$5.33 to \$5.43 for the current fiscal year.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.88	\$2.17	\$2.55	\$2.82	\$3.24	\$3.72	\$3.98	\$4.12	\$4.41	\$4.76	<b>\$5.38</b>	<b>\$7.34</b>
<b>DPS</b>	\$1.19	\$1.19	\$1.28	\$1.38	\$1.56	\$1.81	\$2.04	\$2.24	\$2.40	\$2.55	<b>\$2.70</b>	<b>\$3.87</b>

Hershey has recorded both strong and consistent growth over the last decade. Earnings-per-share have grown every year since 2008. Earnings-per-share grew at an annualized rate of 11% over the last decade.

Hershey's EPS growth stems from several factors. The first one is organic revenue growth, which Hershey has managed to achieve despite the public becoming more conscious about healthy eating habits over the last decade. During 2016 and 2017 revenue growth was a bit pressured due to adverse currency rates, but in Q1 both reported as well as currency-neutral sales were up by more than 4%. Hershey also was able to improve its margins throughout the last decade, partially due to price increases that were higher than the rate of inflation, and due to cost controls and positive operating leverage. As Hershey owns well-recognized brands, pricing increases were not a headwind towards selling increasing volumes of its products. Hershey has repurchased ~10% of its shares since 2011, which has added some additional growth to the company's EPS above the (still quite strong) net earnings growth rate.

In 2018 Hershey's EPS growth will be above the long-term average, but that is primarily due to the impact of a lower tax rate and the effect of the Amplify acquisition (which will be responsible for the majority of the company's revenue growth). Hershey will likely still be able to keep its top line growing, but future margin increases will be harder to achieve, which is why Hershey's EPS growth will most likely come down to a sub-10% level beyond 2018 (and stay there going forward).

The company has raised its dividend at a solid rate of 8.8% annually since 2008, a growth rate that was a bit smaller than its EPS growth rate over the same time frame (it also halted dividend raises during the financial crisis).

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	19.5	16.9	17.9	19.8	20.9	24.2	24.5	23.0	21.9	22.8	<b>16.7</b>	<b>18.5</b>
<b>Avg. Yld.</b>	3.2%	3.2%	2.8%	2.5%	2.3%	2.0%	2.1%	2.4%	2.5%	2.3%	<b>2.9%</b>	<b>2.8%</b>

Hershey trades at the lowest valuation it has traded at in years, but its P/E ratio will very likely not expand to the median P/E of 21 nevertheless. During the last couple of years (when interest rates were very low) food & beverage companies

such as Hershey saw their valuations rise to overly high levels, with interest rates being higher valuations will most likely be a bit lower going forward.

Hershey still looks attractively valued right now, and it also offers an above-average dividend yield of 2.9%.

### Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	48.4%	55.9%	56.5%	57.5%	60.2%	61.2%	59.3%	63.3%	57.2%	62.0%	<b>63.0%</b>	<b>65.0%</b>
Debt/A	90.4%	79.3%	78.1%	80.0%	77.9%	69.8%	73.0%	80.4%	85.0%	83.2%	<b>82.0%</b>	<b>80.0%</b>
Int. Cov.	6.0	8.4	9.4	11.5	11.7	15.2	16.7	12.7	13.2	12.3	<b>12.5</b>	<b>13.0</b>
Payout	63.3%	54.8%	50.2%	48.9%	48.1%	48.7%	51.3%	54.4%	54.4%	53.6%	<b>50.2%</b>	<b>52.7%</b>
Std. Dev.	28.9%	19.5%	18.8%	14.3%	12.4%	13.0%	15.2%	16.2%	23.8%	13.0%	<b>15.0%</b>	<b>15.0%</b>

Hershey’s fundamentals look quite strong. The company is very good at generating returns with the assets it generates, and although its debt to assets ratio is quite high its debt is not a problem at all. Long term debt totals just \$2 billion out of total liabilities of more than \$7 billion, which means relatively low interest expenses, which is why Hershey’s interest coverage is quite strong.

The company pays out roughly half of its earnings in the form of dividends, and its shares aren’t very volatile; even during the last financial crisis share price movements were substantially less severe than most stocks.

Hershey is one of the top chocolate and confectionary companies in the world, and it controls iconic brands that are ubiquitous to consumers. Competition isn’t much of a problem for the company, but if customers became more health-conscious that could hurt growth rates for the whole industry. Customers don’t tend to cut back on low-cost chocolate when the economy is weak, which is why Hershey isn’t vulnerable to recessions. During the last financial crisis – an especially severe recession – the company managed to increase its profits (and its sales).

### Final Thoughts & Recommendation

Hershey has strong fundamentals, generates solid growth, offers a compelling dividend yield and trades at a discount to its fair valuation. Overall many things look good here, and Hershey should be able to generate compelling total returns over the coming years, even though its growth rate will slow down from the level seen over the last decade. Hershey is a buy at current prices for investors looking for safety, an above-average yield, and dividend growth.

### Total Return Breakdown by Year

