



# Sysco Corporation (SYY)

Updated July 11<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b> \$70	<b>5 Year CAGR Estimate:</b> 3.8%	<b>Volatility Percentile:</b> 17.4%
<b>Fair Value Price:</b> \$54	<b>5 Year Growth Estimate:</b> 6.9%	<b>Momentum Percentile:</b> 89.7%
<b>% Fair Value:</b> 130%	<b>5 Year Valuation Multiple Estimate:</b> -5.2%	<b>Valuation Percentile:</b> 15.7%
<b>Dividend Yield:</b> 2.1%	<b>5 Year Price Target:</b> \$75	<b>Total Return Percentile:</b> 18.0%

## Overview & Current Events

Sysco is a food wholesaler and the global market leader in foodservice distribution. The company delivers food to more than 400,000 customers, including hotels, restaurants, etc. Sysco, which was founded in 1969, has a market capitalization of \$36 billion.

Sysco's most recent quarterly results were announced on May 7, the company reported earnings per share of \$0.67, a 31% increase compared to the prior year's quarter. Sysco's revenues grew by 6% year over year, other factors for the strong profit growth were margin expansion, a lower tax rate and a lower share count.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.81	\$1.77	\$1.99	\$1.96	\$1.90	\$1.67	\$1.58	\$1.84	\$2.10	\$2.48	<b>\$2.90</b>	<b>\$4.05</b>
<b>DPS</b>	\$0.85	\$0.94	\$0.99	\$1.03	\$1.07	\$1.11	\$1.16	\$1.19	\$1.23	\$1.30	<b>\$1.44</b>	<b>\$1.96</b>

Sysco's earnings-per-share have increased by mid-single digits in the 2008 to 2017 time frame, but during the current year profits will rise by a wider margin. Tax legislation changes will be a key factor, and the results for the first two quarters of the year show that Sysco is capable of recording strong double-digit growth rates.

Revenue growth has accelerated over the last couple of years, which bodes well for future profit growth. Thanks to rising cash flows (cash flows were up by more than 40% over the first two quarters of the current fiscal year) Sysco should be able to accelerate its share repurchases. Earnings-per-share growth rates should come in at a somewhat higher level going forward.

Sysco's dividend has grown consistently over the long run. Dividend growth averaged 4.3% over the last decade. Sysco has raised the payout to \$1.44 annually already, thus the more rapid earnings growth during the current year has made Sysco's management confident to increase its dividend significantly.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	17.2	14.3	13.8	15.0	15.1	19.2	22.2	20.8	20.3	21.2	<b>24.1</b>	<b>18.5</b>
<b>Avg. Yld.</b>	2.7%	3.7%	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	<b>2.1%</b>	<b>2.7%</b>

Over the years Sysco's valuation has increased substantially, the valuation continued to expand through the last couple of months. Due to the vast share price gains during the second quarter Sysco's shares trade for ~24 times this year's earnings right here. This is a steep premium over the historic median and mean earnings multiple, valuation compression therefore will be a major headwind going forward. We see the PE ratio reverting back to the high-teens area over the coming five years.

The recent share price gains have also made Sysco's dividend yield decline further, shares yield 2.1% right now. This is significantly less than what investors got from Sysco in the past, although investors still receive a slightly higher dividend yield from Sysco compared to the broad market.

*Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.*

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

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>GP/A</b>	71.3%	69.3%	69.9%	64.9%	64.5%	63.0%	62.3%	47.5%	54.1%	59.6%	<b>60.0%</b>	<b>60.0%</b>
<b>Debt/A</b>	66.2%	68.9%	63.0%	58.6%	61.4%	59.1%	59.9%	70.7%	79.2%	86.6%	<b>89.0%</b>	<b>90.0%</b>
<b>Int. Cov.</b>	17.1	16.2	15.7	16.5	16.7	13.0	12.9	5.0	5.7	6.8	<b>7.0</b>	<b>7.0</b>
<b>Payout</b>	47.0%	53.1%	49.7%	52.6%	56.3%	66.5%	73.4%	64.7%	58.6%	52.4%	<b>49.7%</b>	<b>48.4%</b>
<b>Std. Dev.</b>	38.6%	27.4%	17.3%	21.8%	13.8%	18.4%	13.7%	17.3%	20.1%	16.0%	<b>18.0%</b>	<b>17.0%</b>

The company is highly leveraged, with debt totaling close to 90% of all assets, but thanks to a solid interest coverage level that is not problematic. Sysco returns a major amount of its cash flows to its owners and has thus not reduced debt levels over the last several years but could do so if interest rate increases would become a problem.

As the largest company in its industry Sysco has scale based competitive advantages in advertising, sales channels and its cost structure. Due to its geographic reach Sysco also is one of the best service providers for restaurant chains, hotel chains, etc.

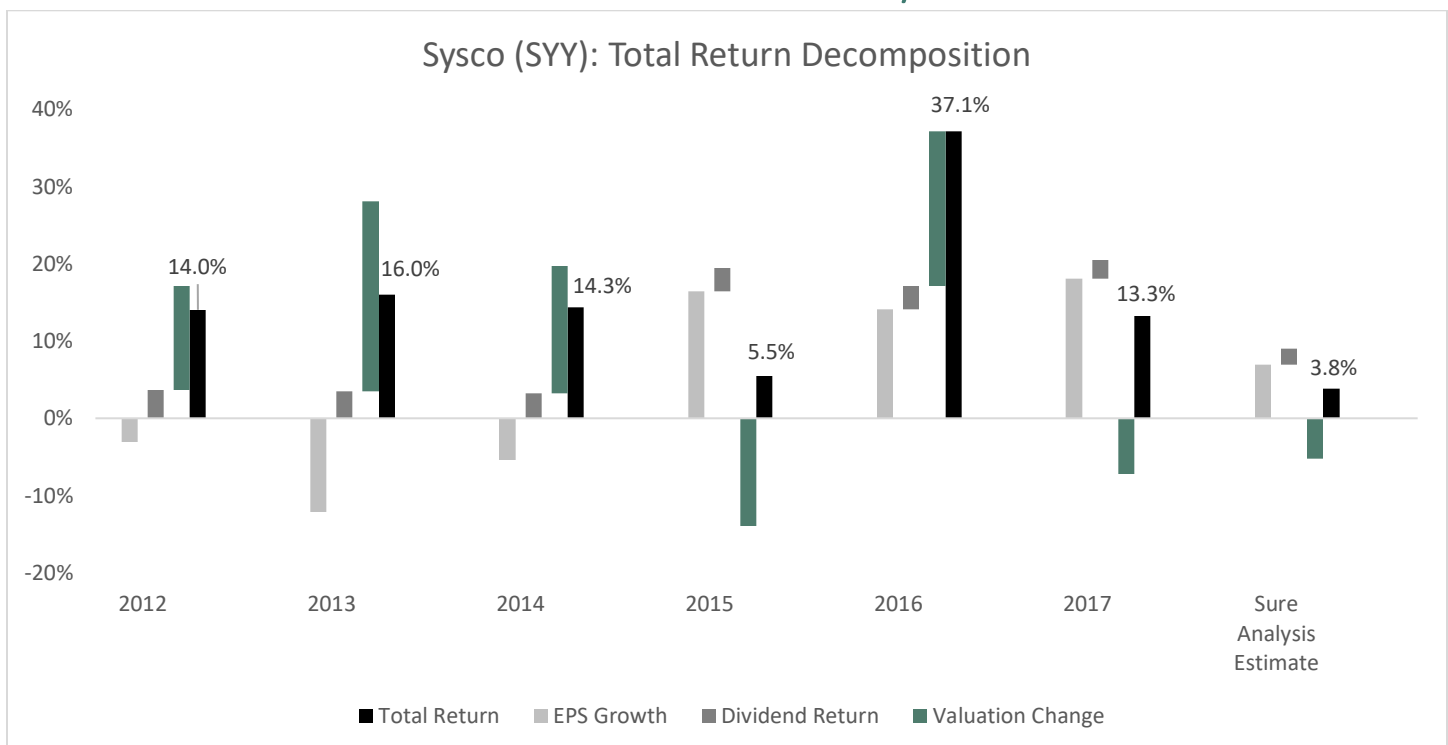
Sysco's profits decreased slightly during the last financial crisis, but only by a couple of percentage points. The dividend payout ratio is not high, and has been declining over the last couple of years (as profit growth accelerated). Sysco's stock is not volatile and has a very low beta of just 0.58, which means its price movements do not correlate as much with those of the broad market. The combination of these factors makes Sysco a rather low-risk investment that provides a reasonable dividend yield and that makes a portfolio more resilient against market downturns.

### Final Thoughts & Recommendation

Sysco's total returns will be limited due to shares trading well above fair value right now, investors should expect low-to-mid-single-digits total returns through the next five years.

Despite Sysco's qualities, which include low volatility, a strong recession performance and reliable dividend growth, we believe that investors should focus on more attractively priced investments right here.

### Total Return Breakdown by Year



*Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.*