



Conagra Brands (CAG)

Updated January 19th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	11.7%	Volatility Percentile:	43.4%
Fair Value Price:	\$26	5 Year Growth Estimate:	3.6%	Momentum Percentile:	3.6%
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.2%	Growth Percentile:	20.1%
Dividend Yield:	3.9%	5 Year Price Target	\$32	Valuation Percentile:	76.6%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	62.9%

Overview & Current Events

Conagra traces its roots back to Gilbert Van Camp's new canned product – pork and beans – in 1861. The company was incorporated as Nebraska Consolidated Mills in 1919, changed to ConAgra in 1971, ConAgra Foods in 1993, and has since become Conagra Brands, moving its headquarters from Omaha to Chicago and spinning off its Lamb Weston business in 2016. In 2018 Conagra acquired Pinnacle Foods for \$10.9 billion in cash and stock. Today the \$10.5 billion market cap company has a bevy of well-known brands like Slim Jim, Healthy Choice, Marie Callender's, Orville Redenbacher's, Reddi Whip, Birds Eye, Vlasic, Hunt's, and PAM.

On December 20th, 2018, Conagra reported Q2 fiscal year 2019 results ending November 25th, 2018. For the quarter the company reported \$2.38 billion in sales, a 9.7% increase as compared to the prior year. Keep in mind that this was the first quarter accounting for the Pinnacle Foods acquisition (31 days of ownership) which added \$259 million to the sales figure. Without this mark, company-wide sales would have actually declined by about 2%. Foodservice in particular lead the legacy business decline, down 16.5% versus the comparable prior period. Diluted earnings-per-share decreased from \$0.54 to \$0.32 for the quarter, but increased from \$0.55 to \$0.67 on an adjusted basis. The difference was due in large part to charges and benefits related to acquisition and divestiture activity.

Conagra also provided their fiscal 2019 outlook. For the year the company anticipates reported net sales to grow 22% to 23% (driven by the Pinnacle acquisition), organic net sales to grow 1% to 2%, an effective tax rate of 24% to 25% and net interest expense of \$390 to \$395 million. Conagra also expects its average diluted share count to come in at 446 million and to generate earnings-per-share of \$2.03 to \$2.08.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.52	\$1.74	\$1.75	\$1.84	\$2.16	\$2.17	\$2.18	\$2.08	\$1.74	\$2.11	\$2.05	\$2.45
DPS	\$0.76	\$0.79	\$0.89	\$0.95	\$0.99	\$1.00	\$1.00	\$1.00	\$0.90	\$0.85	\$0.85	\$1.10
Shares	442	442	410	408	419	423	428	438	417	391	446	440

Conagra has run into difficulty growing as of late. From 2009 through 2015 the company grew earnings-per-share at over 6% annually. Since then per share earnings growth has stalled. To be fair part of this can be explained by the Lamb Weston spin-off, but the share count was also reduced during this time. (Also note that the dividend was not technically cut in 2017 due to this same spin-off, but instead rebased to reflect a small increase for the legacy combined Conagra / Lamb Weston shareholder.)

Moving forward growth may continue to be difficult to come by. For this year, management has told investors to anticipate bottom line per share results that come in -1.4% to -3.8% lower than last year. Moreover, packaged foods have really started to struggle to find growth in the last few years as consumers are preferring fresher, healthier options. There has been a migration away from center aisle staples and a solution for companies like Conagra is not yet known.

Synergies associated with the Pinnacle Foods acquisition could help (management has already stated this benefit could be higher than anticipated) but a core growth problem in the industry remains. We expect earnings-per-share growth of just 3.6% annually over the next 5 years.

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



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.0	12.8	13.2	13.9	13.8	14.9	15.8	20.3	24.4	17.0	10.5	12.9
Avg. Yld.	4.2%	3.5%	3.9%	3.7%	3.3%	3.1%	2.9%	2.4%	2.1%	2.4%	3.9%	3.5%

During the past decade shares of Conagra have traded hands with an average P/E ratio of about 15.8 times earnings. However, this was during a time when the business was growing at a reasonable pace which is no longer the case. If you presume a 45% payout ratio and 3.5% dividend yield this implies a P/E ratio of about 12.9 times earnings. This is something that we are more comfortable with as a starting place, considering the subdued growth expectations.

In the past year Conagra's share price has dropped from \$38 down to \$22 or a 43% decrease. We believe this has moved the security into an interesting valuation territory, even without growth anticipated for this year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	50%	45%	51%	52%	46%	46%	46%	48%	52%	40%	41%	45%

Conagra's competitive advantage lies in its brand strength, where it is the second largest domestic provider of prepared meals, has a 40% market share in canned tomatoes, and a 20% market share in meat snacks. However, the quality of this advantage has been called into question lately as consumer preferences are changing.

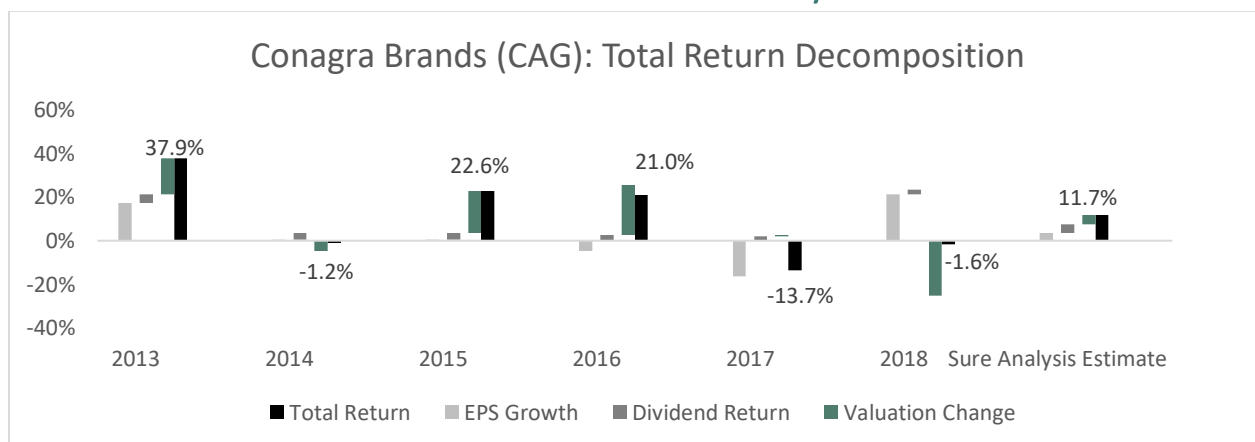
During the last recession Conagra held up reasonably well, with earnings dropping 21% in fiscal year 2008, but bouncing back with a 43% increase (and stable growth thereafter) starting with 2009.

As of the most recent quarterly report Conagra held \$442 million in cash, \$3.28 billion in current assets and \$23 billion in total assets against \$2.23 billion in current liabilities and \$15.7 billion in total liabilities. However, keep in mind that \$11.2 billion of those assets are comprised of goodwill, mostly stemming from the Pinnacle Foods acquisition (with many suggesting the premium paid was too high). Finally, long-term debt stood at \$11.3 billion, with interest expense expected to come in at \$390 million this year against \$900 million or so of underlying earnings power.

Final Thoughts & Recommendation

Conagra has proven to be a solid business for a century now. It has strong brands and enjoys a consistent profit engine. However, growth gas slowed. On the security side, shares are trading around 10 or 11 times earnings with a dividend yield approaching 4%. We rate Conagra as a buy based on its long history, reasonable safety, yield, and low valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	35	52	180	218	217	233	263	269	278	287
Gross Profit	20	31	64	79	79	91	104	93	83	74
Gross Margin	58.2%	59.4%	35.4%	36.4%	36.6%	39.1%	39.5%	34.6%	29.8%	25.8%
SG&A Exp.	3	6	22	25	24	51	62	60	51	44
D&A Exp.	2	3	6	6	15	33	48	40	17	6
Operating Profit	17	25	42	54	55	40	42	33	32	30
Operating Margin	48.5%	47.9%	23.4%	24.8%	25.5%	17.3%	15.8%	12.1%	11.3%	10.4%
Net Profit	14	21	33	42	45	26	31	25	25	-7
Net Margin	41.1%	40.9%	18.3%	19.3%	20.6%	10.9%	11.9%	9.2%	9.1%	-2.4%
Free Cash Flow	2	-4	7	4	32	15	67	34	21	28
Income Tax	2	4	9	11	10	8	9	7	7	36

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	62	132	223	288	349	393	430	417	456	483
Cash & Equivalents	18	62	66	72	75	27	93	103	123	151
Accounts Receivable	8	16	18	62	85	89	69	117	140	174
Inventories	7	11	24	29	35	75	101	87	78	54
Goodwill & Int. Ass.	1	12	33	33	32	30	29	32	31	28
Total Liabilities	29	3	31	46	52	61	57	46	58	90
Accounts Payable	1	0	6	7	3	3	2	5	20	27
Long-Term Debt	3	0	4	14	16	24	24	11	16	12
Shareholder's Equity	33	129	192	242	297	332	373	370	398	393
D/E Ratio	0.10	0.00	0.02	0.06	0.05	0.07	0.06	0.03	0.04	0.03

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	26.0%	22.0%	18.5%	16.4%	14.1%	6.9%	7.6%	5.8%	5.8%	-1.5%
Return on Equity	58.0%	26.4%	20.5%	19.3%	16.6%	8.1%	8.9%	6.6%	6.5%	-1.8%
ROIC	50.5%	25.9%	20.3%	18.6%	15.7%	7.6%	8.4%	6.3%	6.3%	-1.7%
Shares Out.	442	442	410	408	419	423	428	438	417	391
Revenue/Share	1.90	2.22	6.93	8.07	7.81	7.43	7.75	7.32	7.29	7.43
FCF/Share	0.11	-0.18	0.29	0.14	1.14	0.48	1.97	0.94	0.56	0.73

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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