



Sysco Corporation (SYY)

Updated April 14th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$60	5 Year CAGR Estimate: 7.1%	Quality Percentile: N/A
Fair Value Price: \$54	5 Year Growth Estimate: 6.9%	Momentum Percentile: N/A
% Fair Value: 112%	5 Year Valuation Multiple Estimate: -2.2%	Total Return Percentile: N/A
Dividend Yield: 2.4%	5 Year Price Target: \$75	Valuation Percentile:

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 \$32 billion.

Sysco's most recent quarterly results were announced in February: The company earned \$0.66 per share, an increase of 14% year over year. This increase was driven by a revenue gain of eight percent, some margin expansion and the impact of a lower share count.

For the first half of fiscal 2018 Sysco has achieved good results as well, earnings-per-share are up 12% so far this year whilst revenues increased by six percent. Growth accelerated during the second (most recent) quarter.

Growth on a Per-Share Basis

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

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 bigger 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
Avg. P/E	17.2	14.3	13.8	15.0	15.1	19.2	22.2	20.8	20.3	21.2	20.7	18.5
Avg. Yld.	2.7%	3.7%	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	2.4%	2.7%

Over the years Sysco's valuation has increased substantially. The PE ratio hit a high of 21 last year. Right now the valuation is slightly lower, but still higher than the 10-year average PE ratio of roughly 18. Sysco's valuation has expanded along with the broad market's valuation, most indices such as the S&P 500 have also seen their valuations expand since the end of the financial crisis.

Sysco's dividend yield of 2.4% is at the low end of its historic average, but still higher than what investors can get from the broad market (1.8%).

Safety, Quality, Competitive Advantage, & Recession Resiliency

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

Sysco is operating an asset-light business, which shows in the high gross profit to assets ratio. 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 biggest company in its industry Sysco has scale based competitive advantages in advertising, sales channels and its cost structure. The scale of the company allows it to sell its services at reasonable costs, which means that Sysco's customers tend to stick with the company. 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 company is relatively recession-proof, and its business is not really cyclical overall. 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 (0.55), 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 stock has a good chance of providing high single-digits annual returns going forward from earnings growth and dividends. The valuation is slightly higher than the historic average, which reduces expected total returns.

Investors looking for a stock that is not volatile, that provides a solid and safe dividend and that belongs to a company that is recession-resilient should hold Sysco. Now is not the most opportune time to enter into a position in Sysco. It would be a buy for conservative investors when trading at or below fair value.

Total Return Breakdown by Year

