The Hershey Company (HSY)

Updated July 27th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$100	**5 Year CAGR Estimate:**	8.9%	**Volatility Percentile:**	35.1%
Fair Value Price:	$99	**5 Year Growth Estimate:**	6.4%	**Momentum Percentile:**	24.6%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Valuation Percentile:**	61.1%
Dividend Yield:	2.6%	**5 Year Price Target**	$136	**Total Return Percentile:**	58.6%

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 was founded in 1894 and trades with a market capitalization of $20.7 billion.

Hershey reported its most recent quarterly results on July 26. The company earned $1.14 per share during the second quarter, an increase of 6% year over year. Revenues were up by 5% compared to the prior year's quarter, hitting $1.75 billion. Hershey has kept its guidance for earnings per share unchanged.

Hershey announced a dividend increase by 10%, to $0.722 per share per quarter on July 26. The company has also approved a new $500 million stock buyback program, equal to about 2.5% of its current market capitalization.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.88	$2.17	$2.55	$2.82	$3.24	$3.72	$3.98	$4.12	$4.41	$4.76	***$5.38***	***$7.34***
DPS	$1.19	$1.19	$1.28	$1.38	$1.56	$1.81	$2.04	$2.24	$2.40	$2.55	***$2.76***	***$3.87***

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.

Hershey also was able to improve its margins throughout the last decade. 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. Beyond 2018 Hershey will likely still be able to keep its top line growing, but future margin increases will be harder to achieve. This is why Hershey's EPS growth will most likely come down to a sub-10% level beyond 2018.

The company has raised its dividend at a solid rate of 8.8% annually since 2008, a growth rate that was a bit below its EPS growth rate over the same time frame. 2018's dividend increase of 10.1% is slightly higher than the average.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19.5	16.9	17.9	19.8	20.9	24.2	24.5	23.0	21.9	22.8	***18.6***	***18.5***
Avg. Yld.	3.2%	3.2%	2.8%	2.5%	2.3%	2.0%	2.1%	2.4%	2.5%	2.3%	***2.6%***	***2.8%***

Compared to the level shares traded at in May and June they have gotten more expensive again. Hershey is currently valued in line with the historic median. Multiples should remain relatively unchanged over the coming five years.

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

Income investors get a safe dividend yield of 2.6% here, coupled with a meaningful dividend growth rate.

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%	***63.0%***	***65.0%***
Debt/A	90.4%	79.3%	78.1%	80.0%	77.9%	69.8%	73.0%	80.4%	85.0%	83.2%	***82.0%***	***80.0%***
Int. Cov.	6.0	8.4	9.4	11.5	11.7	15.2	16.7	12.7	13.2	12.3	***12.5***	***13.0***
Payout	63.3%	54.8%	50.2%	48.9%	48.1%	48.7%	51.3%	54.4%	54.4%	53.6%	***51.3%***	***52.7%***
Std. Dev.	28.9%	19.5%	18.8%	14.3%	12.4%	13.0%	15.2%	16.2%	23.8%	13.0%	***15.0%***	***15.0%***

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.

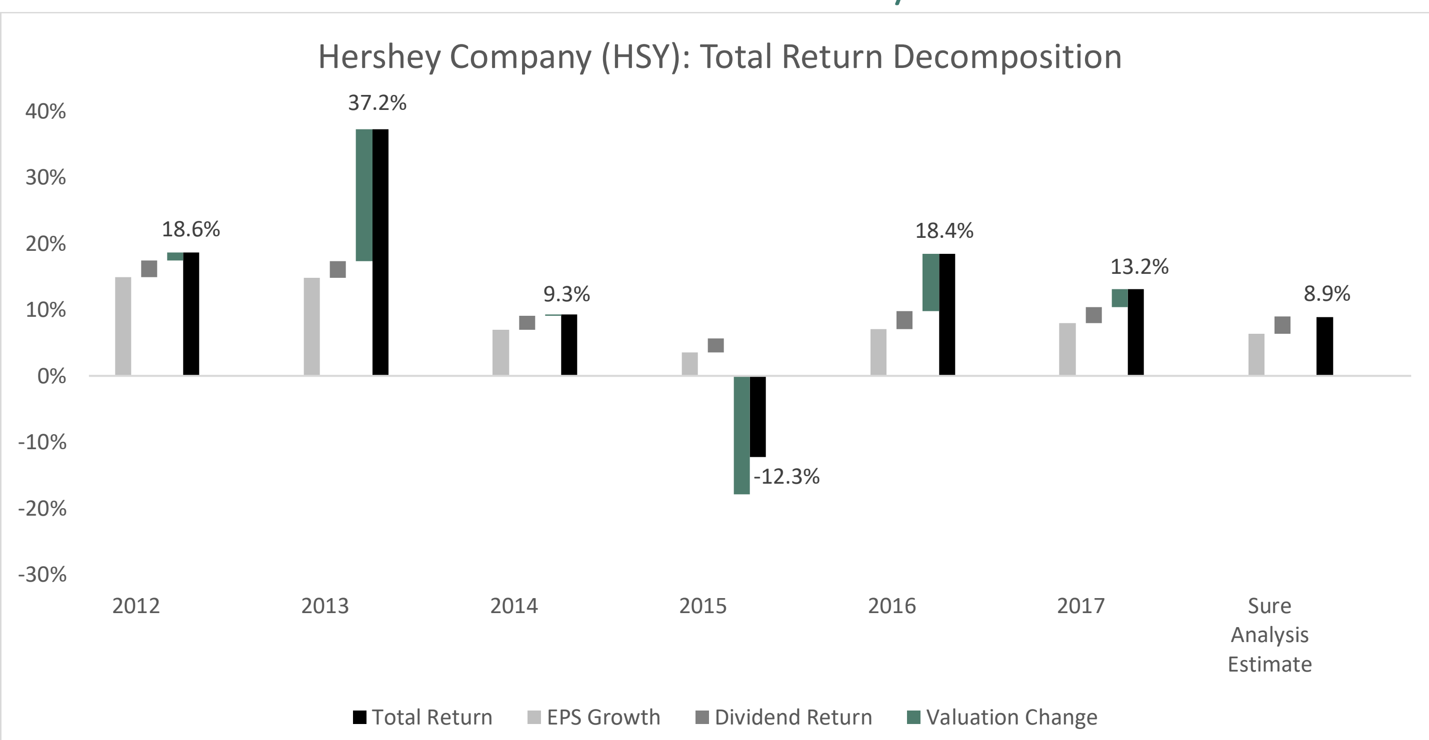
The company pays out roughly half of its earnings in the form of dividends, and its shares are not very volatile; even during the last financial crisis share price movements were substantially less severe than most stocks.

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 both its profits and its sales.

Final Thoughts & Recommendation

Hershey looks fundamentally strong and offers solid growth rates in both its earnings as well as its dividend payments. Shares are being valued in line with the historic average right now and should deliver high-single digits total returns going forward. We rate Hershey as a hold today, as shares look fairly valued right now.

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.