



Sysco Corporation (SYY)

Updated August 13th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$74	5 Year CAGR Estimate: 7.0%	Volatility Percentile: 15.1%
Fair Value Price: \$67	5 Year Growth Estimate: 6.9%	Momentum Percentile: 89.3%
% Fair Value: 111%	5 Year Valuation Multiple Estimate: -2.0%	Valuation Percentile: 44.5%
Dividend Yield: 2.1%	5 Year Price Target: \$93	Total Return Percentile: 43.9%

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 \$38 billion.

Sysco announced its fourth quarter results on August 13. The company earned \$0.94 during Q4, an increase of 31% year over year. Revenues grew to \$15.3 billion during Q4, 6% more than during Q4 of 2017. During fiscal 2018 Sysco managed to grow its sales by 6% as well, earnings per share grew by 27% to \$3.14.

Shares reacted very positively to the Q4 results. Sysco's shares rose by 6% on the first trading day following the release.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.77	\$1.99	\$1.96	\$1.90	\$1.67	\$1.58	\$1.84	\$2.10	\$2.48	\$3.14	\$3.61	\$5.04
DPS	\$0.94	\$0.99	\$1.03	\$1.07	\$1.11	\$1.16	\$1.19	\$1.23	\$1.30	\$1.38	\$1.48	\$2.17

Sysco's earnings-per-share have increased by mid-single digits in the 2008 to 2017 time frame, but during the current calendar 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 current calendar 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 Sysco should be able to accelerate its share repurchases in the coming years. Earnings-per-share growth rates should come in at a high level during the remainder of calendar year 2018 (Q1 and Q2 of fiscal 2019) due to the tax effect. They will then likely level off to a mid-to-high-single-digits growth rate after that.

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 earlier this year. The more rapid earnings growth during the current year has made Sysco's management confident to increase its dividend significantly.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.3	13.8	15.0	15.1	19.2	22.2	20.8	20.3	21.2	21.7	20.5	18.5
Avg. Yld.	3.7%	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	2.2%	2.1%	2.7%

Over the years Sysco's valuation has increased substantially. The valuation has been in the 20s for several years now. Due to the earnings growth during fiscal 2018 Sysco's valuation has not changed a lot despite the company's strong share price gains over the last couple of quarters. Shares are trading at 20.5 times fiscal 2019's earnings right now, which is a small premium over the historic median and mean earnings multiple. Valuation compression therefore will be a minor 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 made Sysco's dividend yield decline to 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 research report, and no plans to initiate one in the next 72 hours.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	69.3%	69.9%	64.9%	64.5%	63.0%	62.3%	47.5%	54.1%	59.6%	62.4%	63.0%	65.0%
Debt/A	68.9%	63.0%	58.6%	61.4%	59.1%	59.9%	70.7%	79.2%	86.6%	86.5%	87.0%	89.0%
Int. Cov.	16.2	15.7	16.5	16.7	13.0	12.9	5.0	5.7	6.8	5.9	6.2	7.0
Payout	53.1%	49.7%	52.6%	56.3%	66.5%	73.4%	64.7%	58.6%	52.4%	43.9%	41.0	43.1%
Std. Dev.	27.4%	17.3%	21.8%	13.8%	18.4%	13.7%	17.3%	20.1%	16.0%	14.7%	16.0%	17.0%

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 the vast majority 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, which can use Sysco as their supplier for all their properties.

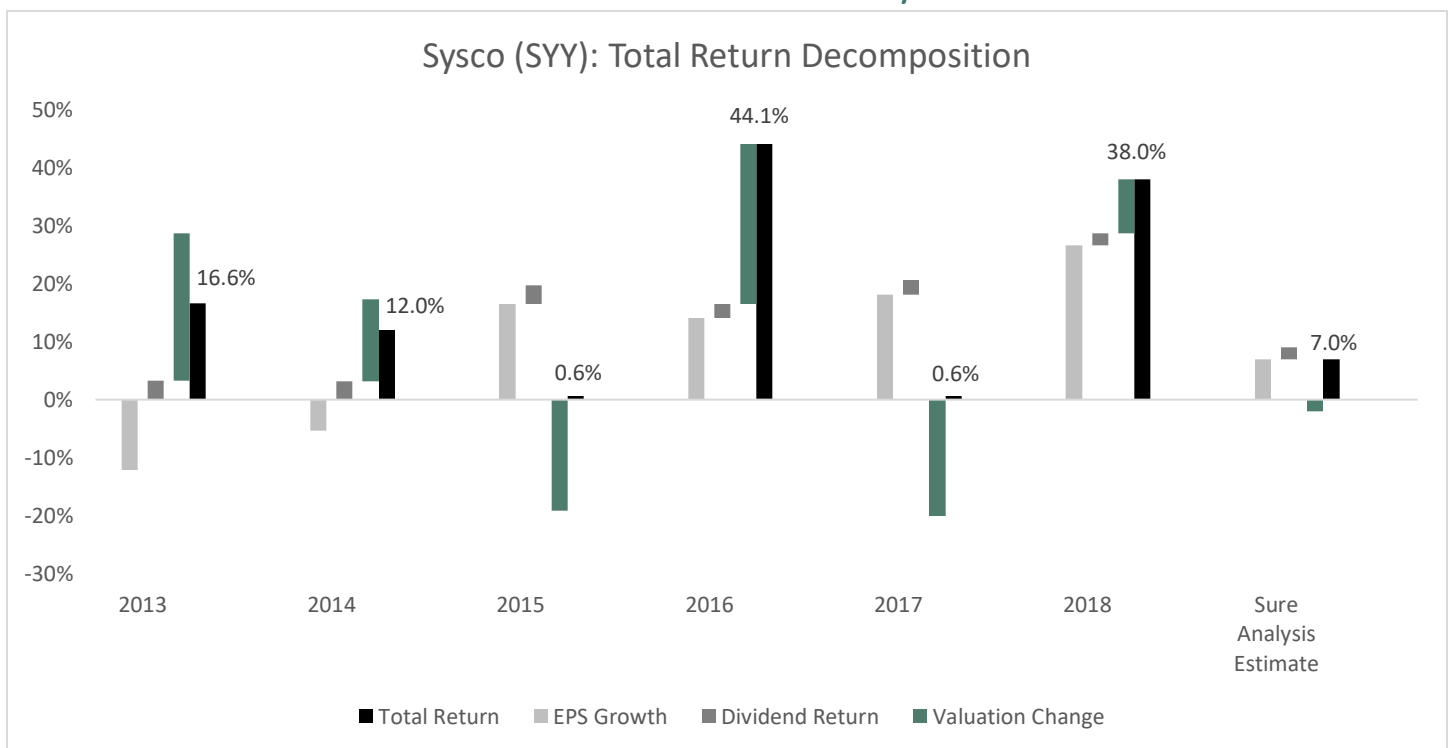
Sysco's profits decreased slightly during the last financial crisis, but only by a couple of percentage points. The dividend payout ratio is not high, and has been declining over the last couple of years as profit growth accelerated. Sysco's stock is not volatile and has a very low beta of just 0.50, which means its price movements do not correlate a lot with those of the broad market. The combination of these factors makes Sysco a relatively 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 slightly above fair value right now, but investors can still expect mid-to-high-single-digits total returns through the next five years.

Sysco's looks like a quality company that combines many positives, such as reliable dividend growth, a strong recession performance and low volatility. Due to the fact that shares trade above fair value we believe that investors should focus on more attractively priced investments right now. Shares earn a hold recommendation at current prices.

Total Return Breakdown by Year



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