



Sysco Corporation (SYY)

Updated November 6th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	9.6%	Volatility Percentile:	19.0%
Fair Value Price:	\$67	5 Year Growth Estimate:	6.9%	Momentum Percentile:	76.4%
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.5%	Growth Percentile:	61.6%
Dividend Yield:	2.2%	5 Year Price Target	\$93	Valuation Percentile:	57.2%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	54.9%

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, and other food providers. Sysco, which was founded in 1969, trades with a market capitalization of \$34 billion.

Sysco reported its first quarter (fiscal 2019) earnings results on November 5. The company grossed revenues of \$15.2 billion during the first quarter, an increase of 3.9% compared to Q1 2018. Revenue growth was driven by a strong performance in the US primarily, where total case growth was 5.7%. Strong consumer confidence and spending levels in the US are a tailwind for Sysco. The company was able to grow its operating income by 5%. Sysco's earnings-per-share grew by an even better 22%, to \$0.91. Earnings-per-share growth was positively impacted by a lower tax rate. Sysco's results during Q1 looked relatively solid overall, with growing revenue, growing margins, and a steep earnings-per-share growth rate. Results missed analyst estimates slightly, by ~1% for both earnings-per-share and revenues, which led to a substantial share price decline of 9% on the day of the earnings release. We do not believe Sysco's share price decline is justified.

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
Shares	590	588	593	586	586	586	594	560	530	521	505	470

Sysco's earnings-per-share increased by mid-single digits in the 2008 to 2017 time frame, but during the current calendar year profits should rise by a wider margin. Tax legislation changes will be a key factor, and the results for the first three quarters of the current calendar year (through Q1 of fiscal 2019) show that Sysco is capable of recording strong double-digit earnings-per-share 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 (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 growth rate averaged 4.3% over the last decade. Sysco has raised the payout to \$1.44 annually earlier this year. Recent strong earnings growth has given Sysco's management confidence to increase its dividend significantly.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.3	13.8	15.0	15.1	19.2	22.2	20.8	20.3	21.2	21.7	18.0	18.5
Avg. Yld.	3.7%	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	2.2%	2.2%	2.2%

Sysco Corporation trades at 18 times this year's expected earnings, which is not an overly low valuation, but still a small discount relative to how shares were valued throughout the last decade.

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.



Sysco Corporation (SYY)

Updated November 6th, 2018 by Jonathan Weber

This small discount allows for some multiple expansion potential, which will be a tailwind for Sysco's total returns over the coming years. The dividend yield of 2.2%, which is slightly more than the broad market's dividend yield, will be a relevant factor for Sysco's total returns as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

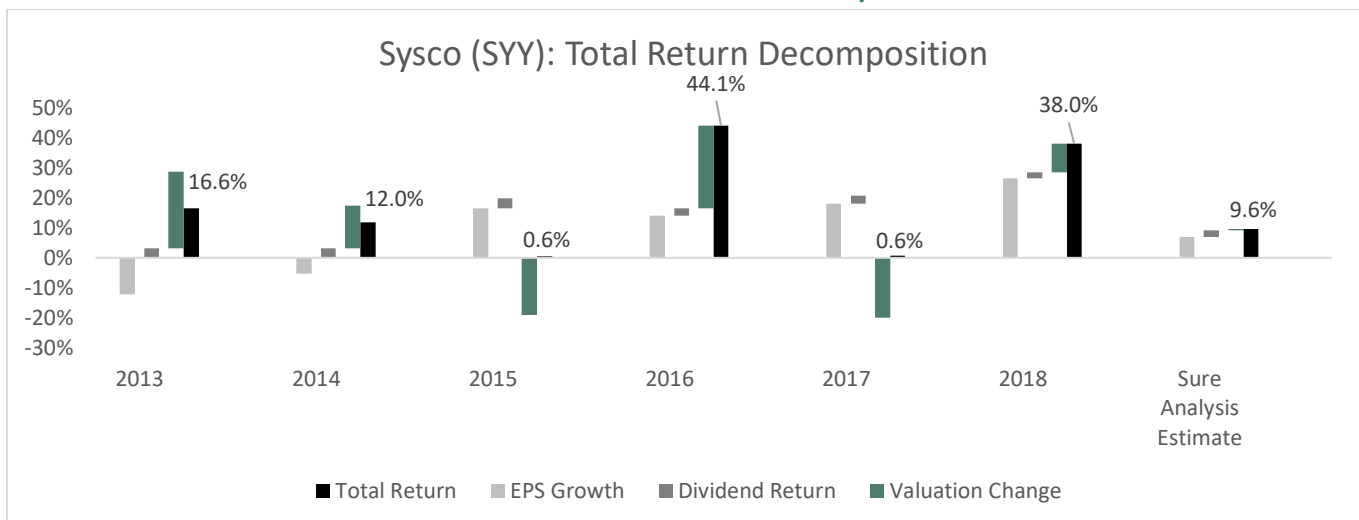
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	69.3%	69.9%	64.9%	64.5%	63.0%	62.3%	47.5%	54.1%	59.6%	62.4%	63.0%	65.0%
Debt/A	68.9%	63.0%	58.6%	61.4%	59.1%	59.9%	70.7%	79.2%	86.6%	86.5%	87.0%	89.0%
Int. Cov.	16.2	15.7	16.5	16.7	13.0	12.9	5.0	5.7	6.8	5.9	6.2	7.0
Payout	53.1%	49.7%	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. Thanks to a solid interest coverage level that is not problematic, though. Sysco returns the vast majority of its cash flows to its owners and has thus not reduced debt levels over the last several years. With that said, the company could do so if higher interest rates become a problem. Sysco's payout ratio is not high, and has been declining over the last several years as profit growth accelerated. 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 major restaurant & hotel chains, which can use Sysco as their supplier for all their properties across the globe. Sysco's profits decreased slightly during the last financial crisis, but only by a couple of percentage points. Sysco's stock is not volatile and has a very low beta of just 0.56, which means that its share 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 is the largest company in its industry, which allows for a lot of geographic diversification as well as for competitive advantages due to its scale. Sysco will most likely continue to deliver solid earnings-per-share growth rates over the coming years. With its above-average dividend yield and some multiple expansion potential this should allow for compelling total returns. Sysco looks like a low-risk pick, and we rate the company a buy at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Sysco Corporation (SY)Y

Updated November 6th, 2018 by Jonathan Weber

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	36853	37243	39323	42381	44411	46517	48681	50367	55371	58727
Gross Profit	7036	7188	7395	7779	7997	8181	8552	9040	10558	11085
Gross Margin	19.1%	19.3%	18.8%	18.4%	18.0%	17.6%	17.6%	17.9%	19.1%	18.9%
SG&A Exp.	N/A	5212	5463	5889	6338	6594	7322	7190	8504	8756
D&A Exp.	382	390	403	417	510	548	553	663	902	765
Operating Profit	1872	1976	1932	1891	1658	1587	1229	1851	2053	2329
Op. Margin	5.1%	5.3%	4.9%	4.5%	3.7%	3.4%	2.5%	3.7%	3.7%	4.0%
Net Profit	1056	1180	1152	1122	992	932	687	950	1143	1431
Net Margin	2.9%	3.2%	2.9%	2.6%	2.2%	2.0%	1.4%	1.9%	2.1%	2.4%
Free Cash Flow	1112	291	455	620	1000	970	1013	1461	1553	1471
Income Tax	715	670	675	662	555	544	321	483	624	525

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	10148	10314	11386	12137	12678	13141	17989	16722	17757	18070
Cash & Equivalents	1019	585	640	689	412	413	5130	3919	870	552
Acc. Receivable	2469	2617	2898	2967	3183	3399	3353	3381	4012	4074
Inventories	1651	1772	2074	2179	2396	2602	2692	2639	2996	3125
Goodwill & Int.	1632	1656	1743	1779	2090	2128	2115	2329	4954	4935
Total Liabilities	6698	6486	6680	7452	7486	7874	12688	13167	15292	15526
Accounts Payable	1788	1953	2183	2209	2428	2831	2882	2936	3971	4136
Long-Term Debt	2477	2481	2669	3018	2889	2733	7322	7435	8195	8327
Total Equity	3450	3828	4705	4685	5192	5267	5260	3480	2382	2507
D/E Ratio	0.72	0.65	0.57	0.64	0.56	0.52	1.39	2.14	3.44	3.32

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	10.4%	11.5%	10.6%	9.5%	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%
Return on Equity	30.8%	32.4%	27.0%	23.9%	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%
ROIC	18.7%	19.3%	16.8%	14.9%	12.6%	11.6%	6.7%	8.0%	10.6%	13.3%
Shares Out.	590	588	593	586	586	586	594	560	530	521
Revenue/Share	61.83	62.74	66.80	71.96	74.93	78.81	81.56	87.23	100.94	111.00
FCF/Share	1.87	0.49	0.77	1.05	1.69	1.64	1.70	2.53	2.83	2.78

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.