General Mills (GIS)

Updated December 21st, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	13.3%	**Volatility Percentile:**	30.6%
Fair Value Price:	$52	**5 Year Growth Estimate:**	3.0%	**Momentum Percentile:**	12.9%
% Fair Value:	77%	**5 Year Valuation Multiple Estimate:**	5.4%	**Growth Percentile:**	10.9%
Dividend Yield:	4.9%	**5 Year Price Target**	$60	**Valuation Percentile:**	77.4%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	66.3%

Overview & Current Events

General Mills is a packaged food giant, with more than 100 brands and operations in more than 100 countries. Since it peaked two and a half years ago, General Mills has dramatically underperformed the market, losing 45% versus a 13% gain for the S&P 500. The main reasons behind this are rising interest rates, the acquisition of Blue Buffalo and the poor business performance of the company.

General Mills has not cut its dividend for 118 consecutive years. Thanks to this record, most of its shareholders own the stock for its dividend. However, now that interest rates are on the rise, the dividend of General Mills has become less attractive. The stock has also been burdened by its takeover of Blue Buffalo. As General Mills has a market cap of $23 billion, its $8 billion acquisition represents 35% of its market cap. The market is afraid that management does not see promising prospects in the core business of the company while the takeover may prove too large to assimilate. Also, growing health trends in packaged food have caused General Mills to stagnate.

In mid-December, General Mills reported (12/19/18) its financial results for the second quarter of fiscal 2019. The company grew its sales 5% thanks to its acquisition of Blue Buffalo but its organic sales decreased 1% due to weak sales in North America. Its adjusted earnings-per-share rose 2% over last year's quarter and exceeded the analysts' estimates ($0.85 vs. $0.81). However, the actual results were much worse. Both the operating income and the earnings-per-share plunged 23% over last year due to high restructuring costs and impairment costs. If the tax rate had not decreased from 35.9% to 24.5%, earnings-per-share would have been much worse. While companies have the right to exclude restructuring costs as "non-recurring costs", General Mills has abused this right and hence we do not view the full amount of these expenses as one-time cost. However, we expect improved results in the upcoming years thanks to Blue Buffalo and the recovery of the yogurt segment. Management reiterated its guidance for double-digit top and bottom-line growth for Blue Buffalo and earnings-per-share $3.02-$3.11 for the whole fiscal year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.99	$2.30	$2.48	$2.56	$2.69	$2.83	$2.86	$2.92	$3.08	$3.11	***$3.07***	***$3.56***
DPS	$0.86	$0.96	$1.12	$1.22	$1.32	$1.55	$1.67	$1.78	$1.92	$1.96	***$1.96***	***$2.08***
Shares	656.0	656.5	644.8	648.5	640.8	612.3	598.7	596.8	576.9	593.0	***608.0***	***600.0***

General Mills has grown its earnings-per-share at a 5.1% average annual rate in the last decade but it has decelerated in recent years and has thus grown its earnings per share at a 2.9% average annual rate in the last five years. We continue to expect approximate 3.0% annual earnings-per share growth until 2024 thanks to the segments of Blue Buffalo and yogurt. For fiscal 2019 we have marginally raised our estimate thanks to the recent (adjusted) earnings beat.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.2	14.3	14.7	15.1	15.7	17.8	18.6	20.0	20.5	17.0	***13.0***	***16.9***
Avg. Yld.	2.9%	2.9%	3.1%	3.2%	3.1%	3.1%	3.1%	3.1%	3.0%	3.7%	***4.9%***	***3.5%***

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Due to the above-mentioned headwinds, General Mills is trading at a price-to-earnings ratio of 13.0, which is much lower than its 10-year average price-to-earnings ratio of 16.9. As the company is likely to recover in the next five years, the stock is likely to revert to its average valuation level and thus enjoy a 5.4% annual tailwind during this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

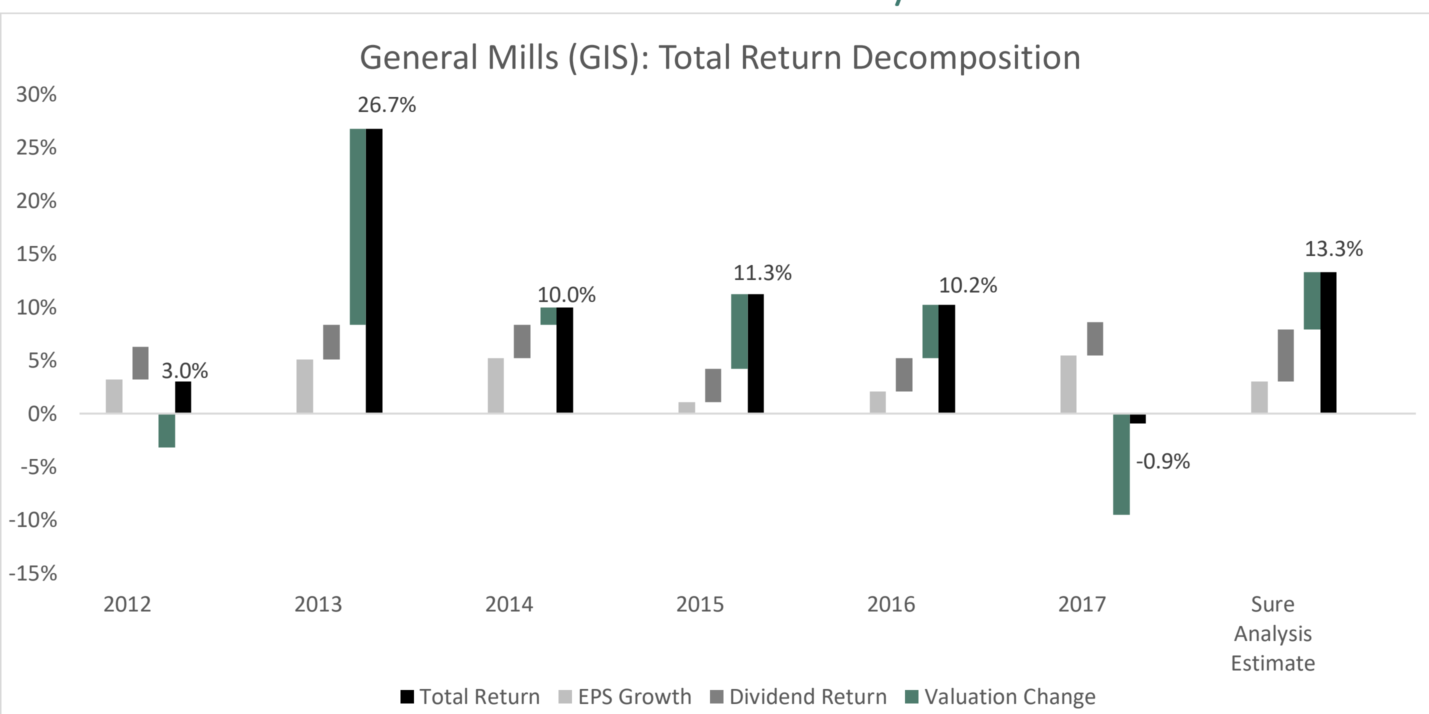
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	43.2%	41.7%	45.2%	47.7%	49.1%	54.8%	58.4%	61.0%	62.3%	63.0%	***63.8%***	***58.4%***

Due to the acquisition of Blue Buffalo, General Mills has frozen its dividend until it reduces its debt load to a more comfortable level. In the first half of this fiscal year, interest expense jumped 81% due to this acquisition, from $147 million to $266 million. On the other hand, the stock has proved resilient during recessions and market sell-offs, like the ongoing one, thanks to the strength of its brands. In the Great Recession, while most companies saw their earnings collapse, General Mills grew its earnings-per-share by more than 10% per year from 2007 to 2010. The company is likely to continue to outperform during future economic downturns.

Final Thoughts & Recommendation

Thanks to its underperformance, General Mills is now trading at an opportune valuation and is offering an almost decade-high dividend yield. The stock can offer a double-digit average annual return over the next five years thanks to 3.0% earnings-per-share growth, a 4.9% dividend and a 5.4% annualized expansion of its valuation level. General Mills is a buy at current prices for conservative investors looking for a high yield and double-digit expected total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	14691	14636	14880	16658	17774	17910	17630	16563	15620	15740
Gross Profit	5234	5800	5954	6045	6424	6370	5949	5830	5564	5428
Gross Margin	35.6%	39.6%	40.0%	36.3%	36.1%	35.6%	33.7%	35.2%	35.6%	34.5%
SG&A Exp.	2952	3163	3192	3381	3552	3474	3328	3119	2801	2753
D&A Exp.	454	457	473	542	588	585	588	608	604	619
Operating Profit	2282	2638	2762	2664	2872	2896	2621	2711	2763	2675
Op. Margin	15.5%	18.0%	18.6%	16.0%	16.2%	16.2%	14.9%	16.4%	17.7%	17.0%
Net Profit	1304	1531	1798	1567	1855	1824	1221	1697	1658	2131
Net Margin	8.9%	10.5%	12.1%	9.4%	10.4%	10.2%	6.9%	10.2%	10.6%	13.5%
Free Cash Flow	1266	1531	882	1731	2312	1878	1830	2035	1731	2218
Income Tax	720	771	721	710	741	883	587	755	655	57

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	17875	17679	18675	21097	22658	23146	21832	21712	21813	30624
Cash & Equivalents	750	673	620	471	741	867	334	764	766	399
Acc. Receivable	953	1042	1162	1324	1446	1484	1387	1361	1430	1684
Inventories	1347	1344	1609	1479	1546	1559	1541	1414	1484	1642
Goodwill & Int.	10410	10308	10564	12887	13637	13665	13552	13280	13278	21510
Total Liabilities	12458	12031	12062	14214	15530	16140	16439	16405	17127	24132
Accounts Payable	803	850	995	1149	1423	1611	1684	2047	2120	2746
Long-Term Debt	7076	6426	6885	7430	7969	8786	9192	8431	9482	15819
Total Equity	5172	5403	6366	6422	6672	6535	4997	4930	4328	6141
D/E Ratio	1.37	1.19	1.08	1.16	1.19	1.34	1.84	1.71	2.19	2.58

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.1%	8.6%	9.9%	7.9%	8.5%	8.0%	5.4%	7.8%	7.6%	8.1%
Return on Equity	22.9%	28.9%	30.6%	24.5%	28.3%	27.6%	21.2%	34.2%	35.8%	40.7%
ROIC	10.1%	12.5%	14.1%	11.3%	12.6%	11.8%	8.0%	12.0%	11.9%	11.7%
Shares Out.	656.0	656.5	644.8	648.5	640.8	612.3	598.7	596.8	576.9	593.0
Revenue/Share	21.38	21.42	22.38	24.99	26.70	27.74	28.49	27.07	26.12	26.87
FCF/Share	1.84	2.24	1.33	2.60	3.47	2.91	2.96	3.33	2.89	3.79

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