



Sysco Corporation (SYY)

Updated February 5th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	9.1%	Volatility Percentile:	19.4%
Fair Value Price:	\$67	5 Year Growth Estimate:	6.9%	Momentum Percentile:	74.9%
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Growth Percentile:	64.1%
Dividend Yield:	2.3%	5 Year Price Target	\$93	Valuation Percentile:	52.5%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	53.8%

Overview & Current Events

Sysco Corporation 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 \$35 billion.

Sysco Corporation reported its second quarter (fiscal 2019) earnings results on February 4. The company reported revenues of \$14.77 billion for the quarter, which represents a growth rate of 2.5% compared to the prior year's quarter. Management explained that consumer confidence remained strong during the most recent quarter, despite the volatility in the financial markets during the last couple of months. Strong consumer confidence has a positive impact on restaurant sales, which, in turn, is a positive for Sysco's ability to sell to its customers. Sysco grew its sales by 4% in the US. The International segment was a bit weaker, as sales rose by just 0.8% outside of the US. Sysco was able to grow its gross profits by 2.7% year over year, which, combined with some operating leverage, allowed for a 4.8% increase in the company's operating profits.

Sysco's earnings-per-share totaled \$0.75 during the second quarter, which was \$0.02 more than what the analyst community had forecasted. Sysco has generated free cash flows of \$701 million during the first two quarters of the current fiscal year, which was up 3% from the free cash flows that were generated during H1 of fiscal 2018.

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	\$1.53	\$2.17
Shares	590	588	593	586	586	586	594	560	530	521	505	470

Sysco's earnings-per-share increased by 6.6% annually in the 2009 to 2018 time frame. Earnings-per-share rose relatively consistently, although profits took a hit during 2013 and 2014. Sysco's earnings-per-share growth during fiscal 2018 and fiscal 2019 was/will be positively impacted by tax legislation changes. Those impacted the four quarters during calendar year 2018, which were Q2-Q4 of fiscal 2018 and Q1 of fiscal 2019. Sysco has generated strong double-digit earnings-per-share growth during fiscal 2018, and fiscal 2019 will likely see an above-average growth rate as well.

Revenue growth has accelerated over the last couple of years, which bodes well for future profit growth. Sysco will be able to grow its revenues thanks to a growing addressable market (consumers are spending more money at restaurants), as well as due to market share gains. Some of these market share gains will come from acquisitions, as Sysco regularly makes tuck-in acquisitions to enhance its presence in attractive markets. Sysco has recently announced two acquisitions - of a wine specialist in Ireland, and of a food distributor in Illinois.

Thanks to rising cash flows Sysco should be able to accelerate its share repurchases in the coming years, which will be a tailwind for the company's earnings-per-share growth rate. We believe that Sysco's earnings-per-share growth will level off to a mid-to-high-single-digits growth rate during the coming years.

Sysco's dividend growth rate averaged 4.3% over the last decade. Sysco has raised the payout to \$1.56 annually in late 2018. Last year's strong EPS growth has given Sysco's management confidence to increase its dividend significantly.

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.



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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	18.6	18.5
Avg. Yld.	3.7%	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	2.2%	2.3%	2.3%

Sysco trades at eighteen and a half times this year's net profits right now. This is a lower valuation than the one shares have traded at during the last couple of years, but that was a time frame when Sysco was trading at an above-average valuation. We believe that shares are relatively fairly valued at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	53.1%	49.7%	52.6%	56.3%	66.5%	73.4%	64.7%	58.6%	52.4%	43.9%	42.4%	43.1%

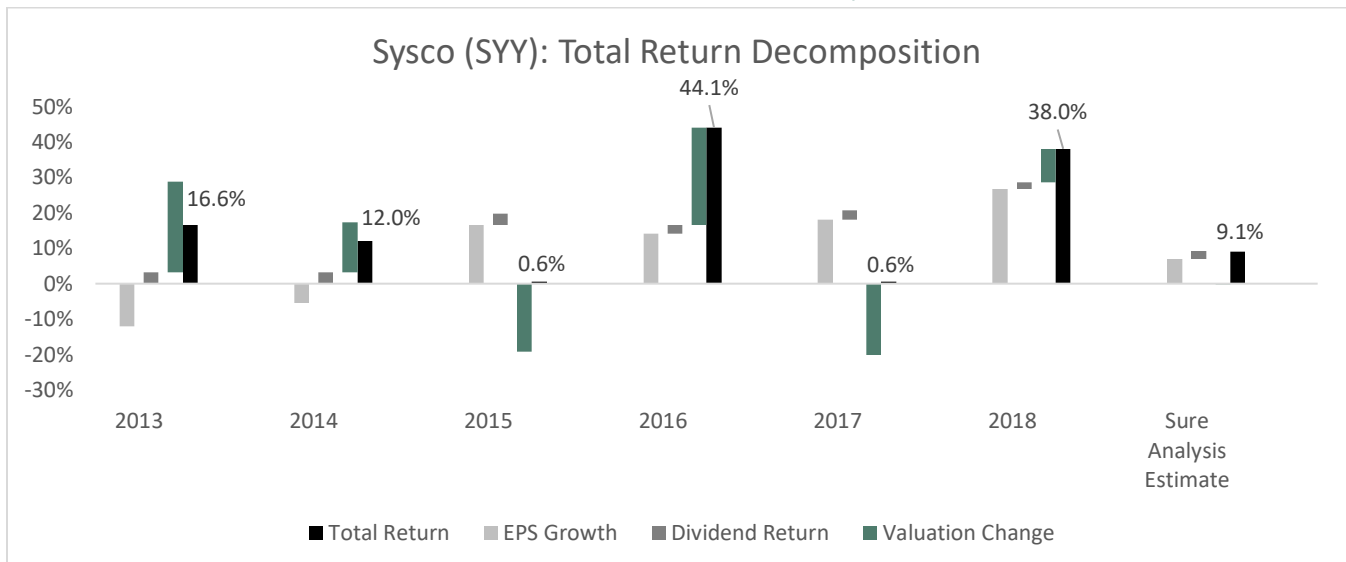
Sysco's dividend payout ratio has declined considerably over the last couple of years, as the company has grown its dividend at a relatively low pace throughout much of the last decade. During the last two years its dividend growth has accelerated again, though. We believe that the dividend is relatively safe.

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. This shows that Sysco is not really vulnerable versus recessions, which is why its shares are not volatile, either. This 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 has tremendously from tax law changes. Going forward, its earnings-per-share growth rate will likely come down a bit. Due to rising sales, acquisitions, and stock buybacks, we believe Sysco's earnings-per-share growth rate will still be solid. Shares look relatively fairly valued at current prices, which is why Sysco earns a hold recommendation from Sure Dividend today. At a lower valuation Sysco would look like a solid buy for investors looking for a low-risk investment.

Total Return Breakdown by Year



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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.

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