



Archer-Daniels-Midland (ADM)

Updated May 17th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	9.5%	Volatility Percentile:	14.4%
Fair Value Price:	\$45	5 Year Growth Estimate:	4.5%	Momentum Percentile:	34.8%
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.6%	Growth Percentile:	33.3%
Dividend Yield:	3.4%	5 Year Price Target	\$56	Valuation Percentile:	68.6%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	55.4%

Overview & Current Events

Archer-Daniels-Midland is the largest publicly-traded farmland products company in the United States. The company, which was founded in 1902, trades with a market capitalization of \$23.1 billion. Archer-Daniels-Midland's businesses include the processing of cereal grains and oilseeds, as well as agricultural storage and transportation.

Archer-Daniels-Midland reported its first quarter earnings results on April 26. The company reported revenues of \$15.3 billion for the first quarter, which was 1.5% less than the revenues that the company generated during Q1 of 2018. This came as a surprise, as the analyst community had forecasted a small revenue increase.

Archer-Daniels-Midland's profitability was negatively impacted by adverse weather, including flooding in the Midwest region. Archer-Daniels-Midland generated adjusted earnings-per-share of \$0.46, which missed the analyst consensus estimate widely, by \$0.16, or ~30%. Archer-Daniels-Midland's earnings-per-share were down substantially from \$0.68 during the previous year's first quarter.

Archer-Daniels-Midland's book value, which we prioritize as a means to value the company's shares, totaled \$33.41 at the end of the quarter, which represents an increase of roughly 1% over the prior year's level.

The market was disappointed by Archer-Daniels-Midland's results, most likely due to the fact that both revenues as well as earnings came in below the consensus estimate. Archer-Daniels-Midland's share price declined by 2% on the day of the earnings release. Management made positive comments regarding the company's outlook for the remainder of the year, the company expects a strong H2, based on improving business conditions and several company initiatives that are aimed at improving Archer-Daniels-Midland's cost structure and competitiveness.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.06	\$3.06	\$3.13	\$2.26	\$2.02	\$3.43	\$2.98	\$2.16	\$2.44	\$3.64	\$3.70	\$3.90
DPS	\$0.54	\$0.58	\$0.62	\$0.69	\$0.76	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.78
BVPS	\$21.03	\$22.79	\$29.34	\$27.27	\$30.59	\$29.97	\$30.11	\$29.97	\$32.43	\$32.98	\$34.50	\$43.00
Shares	642	642	642	659	659	655	595	573	565	567	566	550

Compared to many other dividend stocks that have successfully grown their earnings-per-share for many years in a row, Archer-Daniels-Midland has had a hard time increasing its profits over the last decade. Profits during 2018 were only slightly higher than in 2009. The company has, however, compounded its book value per common share at a rate of 4.6% per year over the last decade. We believe that a similar rate of growth, around 4.5%, is feasible moving forward.

This growth should be very consistent. The business is very resistant to recessions, as people have to eat even during an economic downturn. On the other hand, Archer-Daniels-Midland does not really profit from economic expansion, as the amount of food sold does not rise quickly during good times. A strong economy is thus not a major tailwind for Archer-Daniels-Midland, unlike for many other companies, which profit substantially from higher consumer spending.

Archer-Daniels-Midland's takeover of French animal nutrition company Neovia will likely positively impact the company's profit and book value growth. The acquisition closed in early February. Archer-Daniels-Midland made an all-cash-bid, which is why investors did not have to worry about dilution.

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	8.5	9.5	10.3	13.1	17.6	13.5	15.4	18.8	19.9	11.3	11.1	15.0
Avg. P/B	1.4	1.3	1.1	1.1	1.2	1.5	1.5	1.4	1.3	1.2	1.2	1.3
Avg. Yld.	2.1%	2.0%	1.9%	2.3%	2.8%	2.1%	2.4%	3.0%	3.0%	3.1%	3.4%	3.2%

Archer-Daniels-Midland has been valued at a price to book multiple that has moved in a relatively narrow range over the last decade, even though the company's price to earnings multiple has been as low as 8.5 and as high as 20. Right now shares look slightly undervalued, and investors get an above-average dividend yield of 3.4% at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	17.6%	19.0%	19.8%	30.5%	37.6%	28.0%	37.6%	55.6%	52.5%	36.8%	37.8%	45.6%

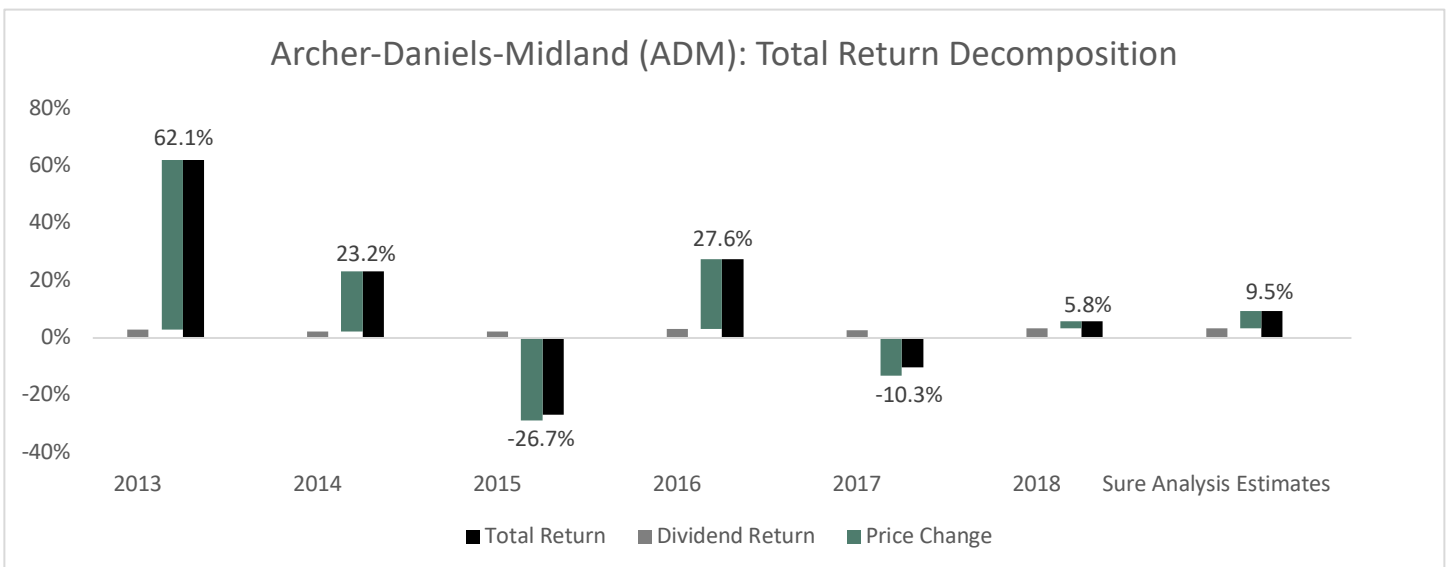
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2016, but that was when the payout ratio peaked in the mid-50s. Thanks to 2018's strong earnings-per-share growth, the dividend payout ratio has declined considerably, to less than 40%. We believe that Archer-Daniels-Midland's dividend is quite safe, as the dividend payout ratio is not high, and as the company's business is not cyclical.

Archer-Daniels-Midland's business is quite recession resilient due to the fact that demand for food products is not cyclical. Archer-Daniels-Midland is one of the largest players in its industry and therefore has competitive advantages due to its scale and geographical reach. Archer-Daniels-Midland looks like a low-risk investment due to its recession resilience, solid balance sheet, its geographic diversification, and its non-cyclical business.

Final Thoughts & Recommendation

Archer-Daniels-Midland's has never been a high-growth name, but the company compounded its book value very consistently in the past. We believe that the company will continue to grow its book value at a mid-single-digit pace, and the takeover of Neovia should be helpful in this regard. Investors get an above-average dividend yield, and thanks to the current undervaluation, the total return outlook is favorable. We rate the company a buy for risk-averse investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	69207	61682	80676	89038	89804	81201	67702	62346	60828	64341
Gross Profit	4089	3843	4300	3668	3889	4768	3966	3618	3518	4181
Gross Margin	5.9%	6.2%	5.3%	4.1%	4.3%	5.9%	5.9%	5.8%	5.8%	6.5%
SG&A Exp.	1412	1398	1611	1626	1759	1933	1985	1981	1978	2165
D&A Exp.	780	912	877	848	909	894	882	900	924	941
Operating Profit	2677	2445	2689	2042	2130	2835	1981	1637	1540	2016
Op. Margin	3.9%	4.0%	3.3%	2.3%	2.4%	3.5%	2.9%	2.6%	2.5%	3.1%
Net Profit	1684	1930	2036	1223	1342	2248	1849	1279	1595	1810
Net Margin	2.4%	3.1%	2.5%	1.4%	1.5%	2.8%	2.7%	2.1%	2.6%	2.8%
Free Cash Flow	3443	1077	-3587	1418	4313	4049	580	-7390	-7015	-5626
Income Tax	812	666	997	523	670	877	438	534	7	245

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	31582	31808	42352	41771	43752	43997	40157	39769	39963	40833
Cash & Equivalents	1055	1046	615	1291	3121	1099	910	619	804	1997
Acc. Receivable	N/A	N/A	4808	3439	4522	4236	2886	2426	2424	2683
Inventories	7782	7871	12055	12192	11441	9374	8243	8831	9173	8813
Goodwill & Int.	532	523	602	603	561	3392	3688	3703	3918	4041
Total Liabilities	17929	17177	23514	23602	23558	24367	22242	22588	21641	21837
Accounts Payable	5786	5538	2581	2474	4513	4326	3474	3606	3894	3545
Long-Term Debt	7996	7548	10319	10320	6870	5660	5877	6931	7493	8388
Total Equity	13627	14609	18808	17969	20156	19575	17899	17173	18313	18981
D/E Ratio	0.59	0.52	0.55	0.57	0.34	0.29	0.33	0.40	0.41	0.44

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.9%	6.1%	5.5%	N/A	3.0%	5.1%	4.4%	3.2%	4.0%	4.5%
Return on Equity	12.4%	13.7%	12.2%	6.7%	6.9%	11.3%	9.9%	7.3%	9.0%	9.7%
ROIC	7.3%	8.8%	7.9%	N/A	4.8%	8.6%	7.5%	5.3%	6.4%	6.8%
Shares Out.	642	642	642	659	659	655	595	573	565	567
Revenue/Share	107.5	95.78	123.36	133.69	135.45	123.78	109.02	105.49	106.34	113.48
FCF/Share	5.35	1.67	-5.48	2.13	6.51	6.17	0.93	-12.50	-12.26	-9.92

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

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