



Sysco Corporation (SYY)

Updated November 21st, 2019 by Lyn Alden

Key Metrics

Current Price:	\$79	5 Year CAGR Estimate:	6.4%	Volatility Percentile:	18.9%
Fair Value Price:	\$69	5 Year Growth Estimate:	7.0%	Momentum Percentile:	72.5%
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Growth Percentile:	70.3%
Dividend Yield:	2.3%	5 Year Price Target	\$96	Valuation Percentile:	43.6%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	42.9%

Overview & Current Events

Sysco Corporation (SYY) is the largest wholesale food distributor in the United States and is expanding internationally. The company was founded in Houston, Texas in 1969 and now serves 600,000 locations with food delivery, including restaurants, hospitals, schools, hotels, and other facilities. According to estimates, the company has a 16% market share of total food delivery within the United States. The company has approximately 67,000 employees and a market capitalization of approximately \$40 billion.

On November 4th, 2019, Sysco reported first quarter results for the period ended September 28th. The company reported sales growth of 0.6% compared to the same quarter last year. Gross profit increased 1.4%, and adjusted earnings per share increased by 8.2%. The primary headwind this quarter was foreign exchange rates. Although international operations showed a resumption of growth and exceeded the U.S. operations' growth rate, most of that growth this quarter was given up due to weakening foreign currencies.

This quarter, Sysco announced their 51st consecutive annual dividend increase. They boosted the dividend by 15% from \$0.39 to \$0.45, which was a larger than normal increase.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.99	\$1.96	\$1.90	\$1.67	\$1.58	\$1.84	\$2.10	\$2.48	\$3.01	\$3.55	\$3.82	\$5.36
DPS	\$0.99	\$1.03	\$1.07	\$1.11	\$1.16	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.80	\$2.52
Shares¹	588	593	586	586	586	594	560	530	521	513	500	460

Sysco has grown earnings by 15.7% annually over the past 5 years, and 6.6% over the past 9 years. The company grows organically, through tuck-in acquisitions, and more recently with share buybacks. Tax cuts and share buybacks have accelerated earnings growth in recent years, but this level of growth will not be permanent. The company is also in the process of cutting overhead costs, which should mildly boost bottom-line growth. Consensus analyst expectations are for 7.7% earnings growth over the next 3 years, and we anticipate 7.0% growth over the next 5 years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.8	15.0	15.1	19.2	22.2	20.8	20.3	21.2	19.3	19.4	20.7	18.0
Avg. Yld.	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	2.4%	2.2%	2.3%	2.6%

Over the past decade, Sysco has averaged a P/E ratio of 18.6. The company was valued at a lower level in the post-recession years, but quickly expanded to maintaining a multiple that fluctuates around 20 in most market conditions. We anticipate a moderately declining multiple towards 18.0 in the coming years. The dividend yield decreased in the post-recession period as the company increased in valuation, but more recently has decreased primarily due to a reduction in the dividend payout ratio because the company has grown earnings faster than its dividend. We expect a mild increase in the dividend yield as valuation decreases slightly and the payout ratio remains relatively flat.

¹ Share count is in millions.

Disclosure: This analyst is long SYS.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	50%	53%	56%	66%	73%	65%	59%	52%	47%	43%	47%	47%

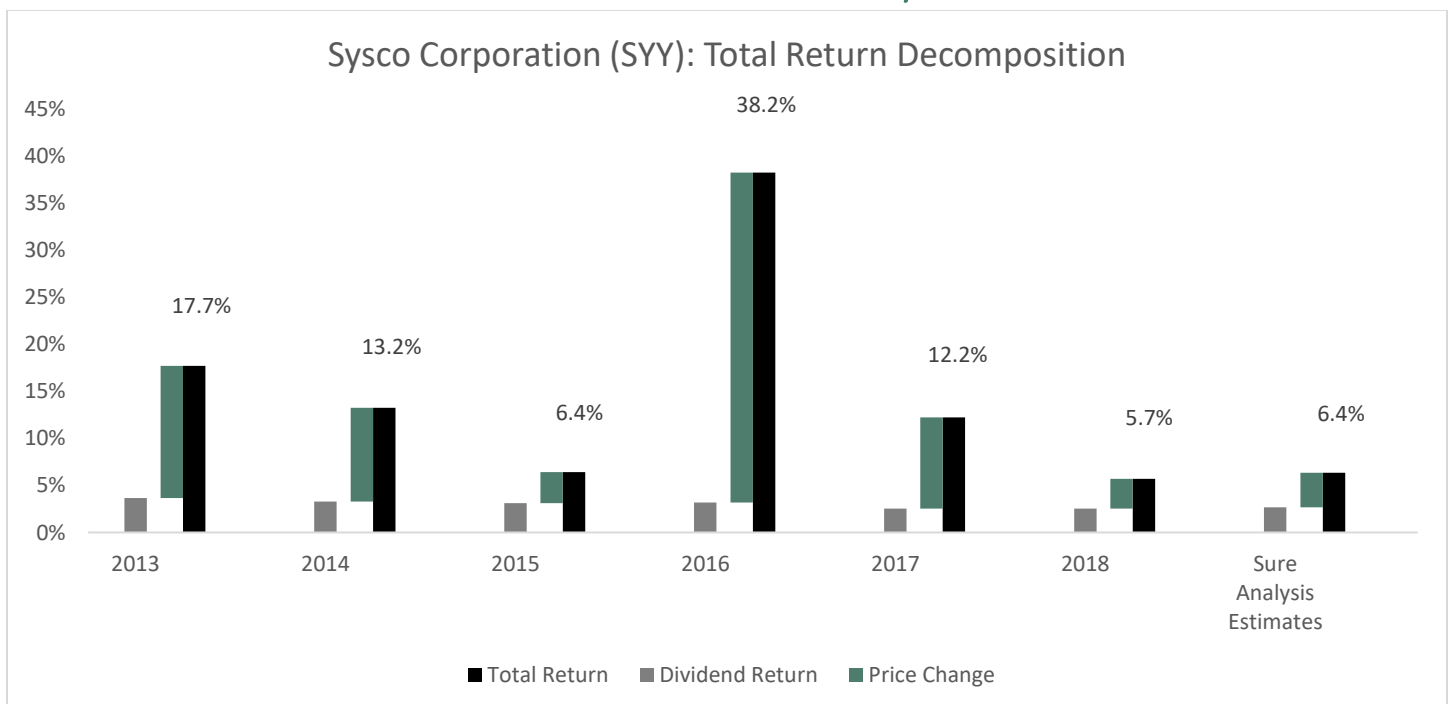
Sysco has an economic moat due to its large scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the fact that the company generates double-digit returns on invested capital every year, which is much higher than its weighted average cost of capital. It's also quite defensive; the company was almost unfazed by the previous recession and recovered from a mild earnings dip within one year. Thanks to this stability, Sysco has raised its dividend every year for five decades since it went public and maintains a safe payout ratio, although the dividend yield is not much higher than the S&P 500 average.

As one blemish, Sysco's balance sheet is mediocre. The company has approximately \$8 billion in net debt (total debt minus cash and short-term investments) compared to less than \$1.7 billion in net income, resulting in a debt/income ratio of nearly 5, which is rather high. Sysco's stable cash flows should allow them to comfortably service the debt in most environments, but this level of leverage limits the company's flexibility going forward. Most of this debt increase occurred within the past few years and went in part towards share buybacks to take advantage of low interest rates. The company has a BBB+ credit rating from S&P, which is towards the middle of investment grade.

Final Thoughts & Recommendation

Sysco has a sturdy moderate-growth business and a long track record of dividend growth. Because the global economy is currently experiencing slowing growth, many defensive companies are being priced at a premium, and Sysco is no exception. Its valuation is modestly higher than its long-term average, and the company's leverage is also higher than it historically has been. While this is a great business, investors should exercise caution in terms of buying prices. We expect Sysco to generate 6.4% annual compounded returns going forward as a base case, and consider the stock to be a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	37243	39323	42381	44411	46517	48681	50367	55371	58727	
Gross Profit	7188	7395	7779	7997	8181	8552	9040	10558	11085	
Gross Margin	19.3%	18.8%	18.4%	18.0%	17.6%	17.6%	17.9%	19.1%	18.9%	
SG&A Exp.	5212	5463	5889	6338	6594	7322	7190	8504	8756	
D&A Exp.	390	403	417	510	548	553	663	902	765	
Operating Profit	1976	1932	1891	1658	1587	1229	1851	2053	2329	
Operating Margin	5.3%	4.9%	4.5%	3.7%	3.4%	2.5%	3.7%	3.7%	4.0%	
Net Profit	1180	1152	1122	992	932	687	950	1143	1431	
Net Margin	3.2%	2.9%	2.6%	2.2%	2.0%	1.4%	1.9%	2.1%	2.4%	
Free Cash Flow	291	455	620	1000	970	1013	1461	1553	1471	
Income Tax	670	675	662	555	544	321	483	624	525	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	10314	11386	12137	12678	13141	17989	16722	17757	18070	
Cash & Equivalents	585	640	689	412	413	5130	3919	870	552	
Acc. Receivable	2617	2898	2967	3183	3399	3353	3381	4012	4074	
Inventories	1772	2074	2179	2396	2602	2692	2639	2996	3125	
Goodwill & Int. Ass.	1656	1743	1779	2090	2128	2115	2329	4954	4935	
Total Liabilities	6486	6680	7452	7486	7874	12688	13167	15292	15526	
Accounts Payable	1953	2183	2209	2428	2831	2882	2936	3971	4136	
Long-Term Debt	2481	2669	3018	2889	2733	7322	7435	8195	8327	
Total Equity	3828	4705	4685	5192	5267	5260	3480	2382	2507	
D/E Ratio	0.65	0.57	0.64	0.56	0.52	1.39	2.14	3.44	3.32	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.5%	10.6%	9.5%	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%	
Return on Equity	32.4%	27.0%	23.9%	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	
ROIC	19.3%	16.8%	14.9%	12.6%	11.6%	6.7%	8.0%	10.6%	13.3%	
Shares Out.	588	593	586	586	586	594	560	530	521	
Revenue/Share	62.74	66.80	71.96	74.93	78.81	81.56	87.23	100.94	111.00	
FCF/Share	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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