



Sysco Corporation (SYY)

Updated March 20th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	19.3%	Market Cap:	\$18.9B
Fair Value Price:	\$53	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	4/2/20
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.4%	Dividend Payment Date:	4/24/20
Dividend Yield:	5.1%	5 Year Price Target	\$74	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	15.4%

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 \$18.9 billion.

On February 3rd, 2020, Sysco reported second quarter results. Sales increased by 1.8% to \$15 billion, gross profit increased by 2% to \$2.8 billion, and gross margin increased by 5 basis points. Operating income grew by a whopping 22.3% to \$552.5 million, while adjusted operating income increased by 3.9% to 626.9 million. Finally, adjusted earnings-per-share increased by \$0.10 to \$0.85. Given that the coronavirus is having a significant impact on the company's primary sources of revenue, we are reducing our earnings-per-share estimate for this year.

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	\$3.50	\$4.91
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	10.0	15.0
Avg. Yld.	3.6%	3.5%	3.7%	3.5%	3.3%	3.1%	2.9%	2.5%	2.4%	2.2%	5.1%	3.4%

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. Given the current uncertainties stemming from the coronavirus outbreak, we are reducing our fair value multiple estimate to 15 times earnings as we believe the company's performance will bounce back quickly within a few months once the quarantine conditions are lifted and people resume eating at restaurants and traveling to hotels. The company is also driving new revenue streams from delivery to grocery stores.

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%	51%	51%

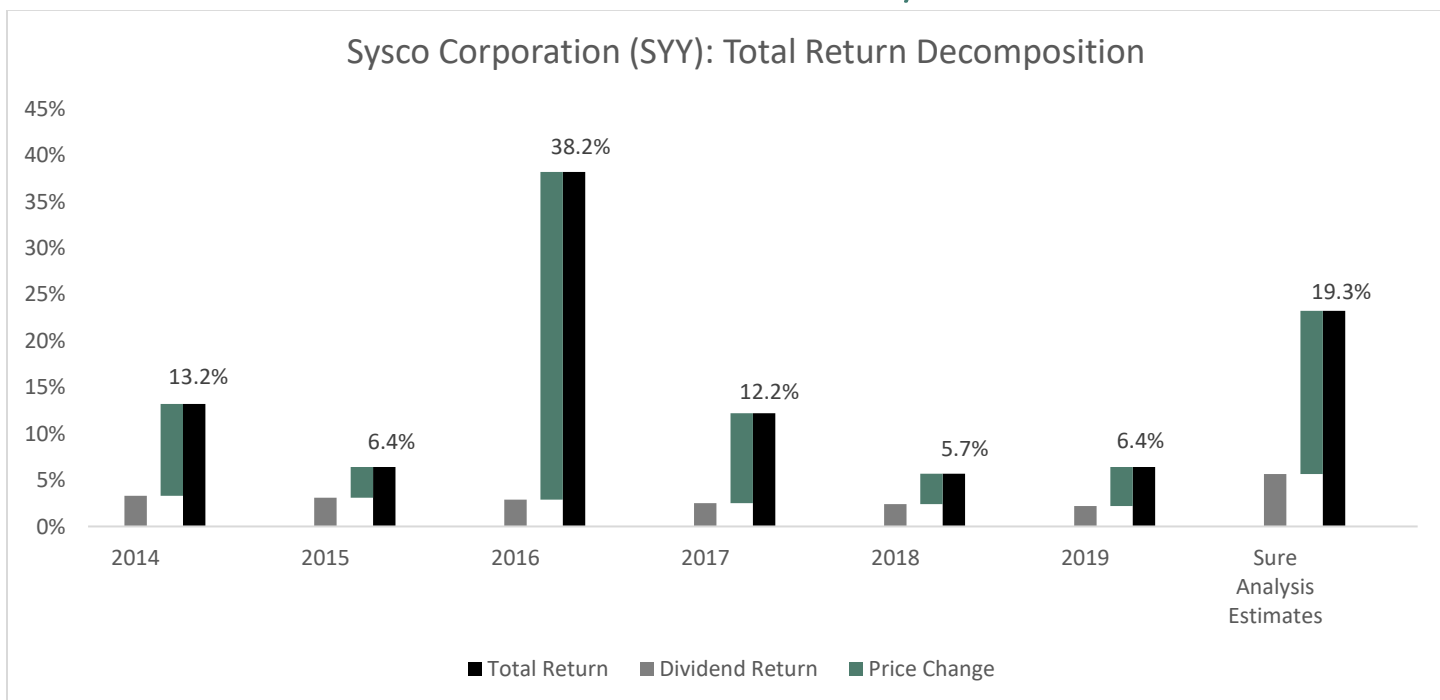
Sysco has an economic moat due to its large scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the fact that the company generates double-digit returns on invested capital every year, which is much higher than its weighted 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 due to the uncertain impacts of the coronavirus outbreak. We expect Sysco to generate 19.3% annual compounded returns going forward, though this might be reduced downward if the pandemic's impacts appear to be prolonged. For now, we rate the stock a buy.

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	60114
Gross Profit	7188	7395	7779	7997	8181	8552	9040	10558	11085	11409
Gross Margin	19.3%	18.8%	18.4%	18.0%	17.6%	17.6%	17.9%	19.1%	18.9%	19.0%
SG&A Exp.	5212	5463	5889	6338	6594	7322	7190	8504	8756	
D&A Exp.	390	403	417	510	548	553	663	902	765	764
Operating Profit	1976	1932	1891	1658	1587	1229	1851	2053	2329	2,330
Operating Margin	5.3%	4.9%	4.5%	3.7%	3.4%	2.5%	3.7%	3.7%	4.0%	3.9%
Net Profit	1180	1152	1122	992	932	687	950	1143	1431	1,674
Net Margin	3.2%	2.9%	2.6%	2.2%	2.0%	1.4%	1.9%	2.1%	2.4%	2.8%
Free Cash Flow	291	455	620	1000	970	1013	1461	1553	1471	1,719
Income Tax	670	675	662	555	544	321	483	624	525	332

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	17967
Cash & Equivalents	585	640	689	412	413	5130	3919	870	552	513
Acc. Receivable	2617	2898	2967	3183	3399	3353	3381	4012	4074	4,182
Inventories	1772	2074	2179	2396	2602	2692	2639	2996	3125	3,216
Goodwill & Int. Ass.	1656	1743	1779	2090	2128	2115	2329	4954	4935	4,754
Total Liabilities	6486	6680	7452	7486	7874	12688	13167	15292	15526	15464
Accounts Payable	1953	2183	2209	2428	2831	2882	2936	3971	4136	4,315
Long-Term Debt	2481	2669	3018	2889	2733	7322	7435	8195	8327	8,163
Total Equity	3828	4705	4685	5192	5267	5260	3480	2382	2507	2,503
D/E Ratio	0.65	0.57	0.64	0.56	0.52	1.39	2.14	3.44	3.32	3.26

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%	9.3%
Return on Equity	32.4%	27.0%	23.9%	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%
ROIC	19.3%	16.8%	14.9%	12.6%	11.6%	6.7%	8.0%	10.6%	13.3%	15.6%
Shares Out.	588	593	586	586	586	594	560	530	521	513
Revenue/Share	62.74	66.80	71.96	74.93	78.81	81.56	87.23	100.94	111.00	114.9
FCF/Share	0.49	0.77	1.05	1.69	1.64	1.70	2.53	2.83	2.78	3.28

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

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