General Mills (GIS)

Updated September 23rd, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$37.2 B
Fair Value Price:	$62	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	10/08/20
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	11/02/20
Dividend Yield:	3.4%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4.1%

Overview & Current Events

General Mills is a packaged food giant, with more than 100 brands and operations in more than 100 countries. It has a market capitalization of $37.2 billion.

General Mills has not cut its dividend for 118 consecutive years. However, the stock underperformed the market by a wide margin in recent years, partly due to the acquisition of Blue Buffalo, with the $8 billion acquisition representing 25% of its market cap at the time of the acquisition. Investors may be afraid that management does not see promising prospects in the core business of the company while the takeover may prove too large to assimilate smoothly. Also, growing health trends in packaged food caused General Mills to stagnate in recent years.

In late September, General Mills reported (9/23/20) financial results for the first quarter of fiscal 2021. The company continued to thrive thanks to the pandemic, which resulted in elevated demand for food at home. The benefit for General Mills was greater in North America than in international markets. The company grew its net sales 9%, its organic sales 10% and its adjusted earnings-per-share 27% over last year's quarter. Its earnings-per-share of $1.00 exceeded analysts' consensus by $0.13 and thus we have raised our earnings-per-share forecast for the year from $3.55 to $3.65. Despite the reopening of the economy, the momentum of General Mills has remained strong and thus the company raised its quarterly dividend by 4%, from $0.49 to $0.51, much earlier than expected. Management had frozen the dividend to reduce the debt load, which had greatly increased after the acquisition of Blue Buffalo.

Due to the uncertainty that results from the pandemic, General Mills did not provide any guidance for this year. If the pandemic lasts longer than expected, General Mills is likely to exceed our expectations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.48	$2.56	$2.69	$2.83	$2.86	$2.92	$3.08	$3.11	$3.22	$3.61	***$3.65***	***$4.23***
DPS	$1.12	$1.22	$1.32	$1.55	$1.67	$1.78	$1.92	$1.96	$1.96	$1.96	***$2.02***	***$2.22***
Shares[1]	644.8	648.5	640.8	612.3	598.7	596.8	576.9	593.0	605.0	616.1	***620.0***	***600.0***

General Mills has grown its earnings-per-share at a 4.3% average annual rate in the last decade. In recent years this has decelerated, with the company growing its earnings-per-share at a 2.6% average annual rate in the five years leading to 2019, before the tailwind from the coronavirus. We continue to expect approximately 3.0% annual earnings-per share growth until 2026, mostly thanks to Blue Buffalo, whose growth may continue to partially offset the poor results of the legacy business. Earnings-per-share will also benefit from lower interest expense, as the deleveraging process continues.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.7	15.1	15.7	17.8	18.6	20.0	20.5	17.0	14.1	15.0	***16.2***	***16.9***
Avg. Yld.	3.1%	3.2%	3.1%	3.1%	3.1%	3.1%	3.0%	3.7%	4.3%	3.6%	***3.4%***	***3.1%***

[1] In millions.

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General Mills is trading at a price-to-earnings ratio of 16.2, which is slightly lower than its 10-year average price-to-earnings ratio of 16.9. If the stock reverts to its average valuation level over the next five years, it will enjoy a 0.9% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	45.2%	47.7%	49.1%	54.8%	58.4%	61.0%	62.3%	63.0%	60.9%	54.3%	***55.3%***	***52.4%***

The strong brands of General Mills provide some sort of competitive advantage but the fierce competition in its business, which caused the company to stagnate in the last five years (before the pandemic), indicates that this moat is narrow.

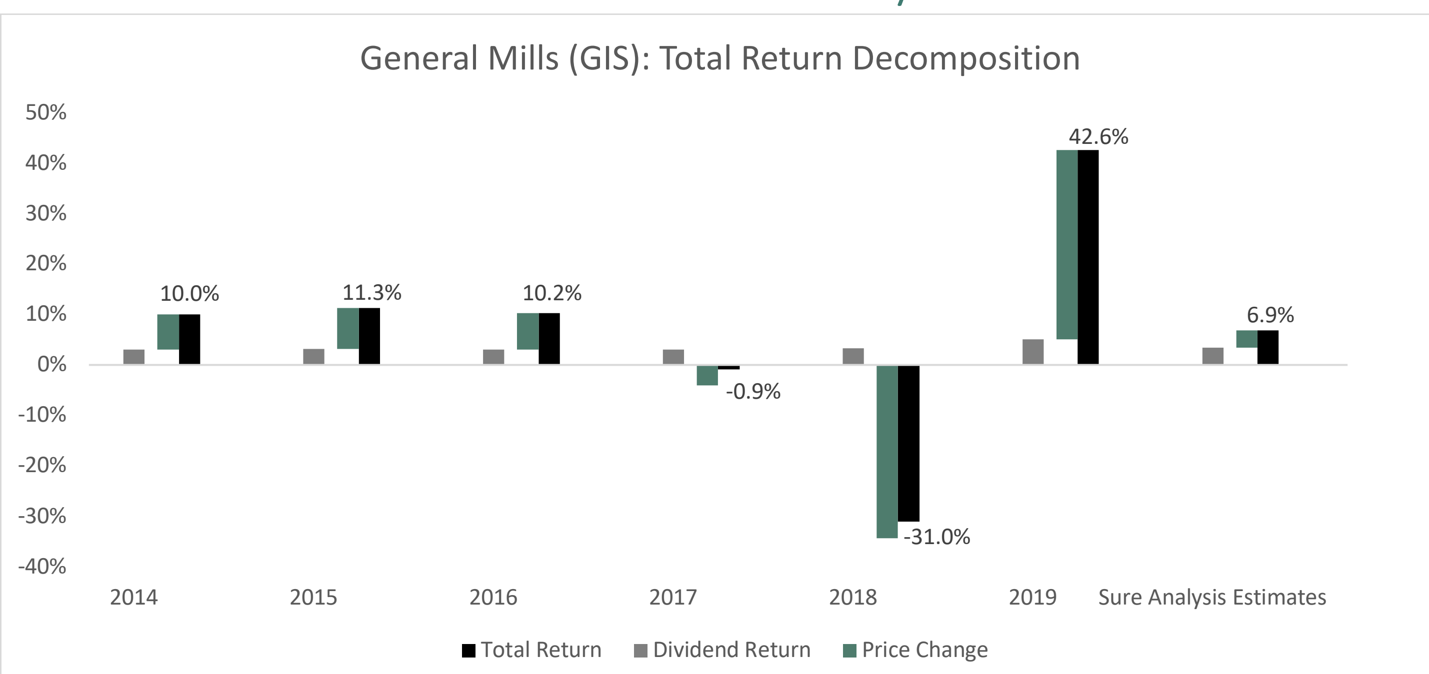
Due to the acquisition of Blue Buffalo, the debt load of General Mills increased materially. In fiscal 2019, interest expense jumped 40% due to this acquisition, from $374 million to $522 million. However, the company reduced its debt by $1.2 billion in fiscal 2019 and $950 million in fiscal 2020. The benefit from lower interest expense was evident in the results of fiscal 2020. During that period, interest expense decreased -11%, from $522 million to $466 million, and thus boosted pre-tax income by 2%.

Moreover, the stock has proven resilient during recessions and market selloffs because people tend to eat at home more during difficult economic periods. 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. In the fierce ongoing coronavirus crisis, General Mills is proving its resilience once again, as it posted record earnings in fiscal 2020.

Final Thoughts & Recommendation

General Mills is proving its safe-haven nature in the fierce coronavirus crisis. However, the stock has rallied 26% off its bottom and thus it may offer just a 6.9% average annual return over the next five years thanks to 3.0% earnings-per-share growth, its 3.4% dividend and a modest annualized expansion of its earnings multiple. We rate the stock as a hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	14880	16658	17774	17910	17630	16563	15620	15740	16865	17,627
Gross Profit	5954	6045	6424	6370	5949	5830	5568	5436	5757	6,130
Gross Margin	40.0%	36.3%	36.1%	35.6%	33.7%	35.2%	35.6%	34.5%	34.1%	34.8%
SG&A Exp.	3192	3381	3552	3474	3328	3119	2889	2850	2936	3,152
D&A Exp.	473	542	588	585	588	608	604	619	620	595
Operating Profit	2762	2664	2872	2896	2621	2711	2679	2586	2821	2,978
Op. Margin	18.6%	16.0%	16.2%	16.2%	14.9%	16.4%	17.2%	16.4%	16.7%	16.9%
Net Profit	1798	1567	1855	1824	1221	1697	1658	2131	1753	2,181
Net Margin	12.1%	9.4%	10.4%	10.2%	6.9%	10.2%	10.6%	13.5%	10.4%	12.4%
Free Cash Flow	882	1731	2312	1878	1830	2035	1731	2218	2269	3,215
Income Tax	721	710	741	883	587	755	655	57	368	481

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	18675	21097	22658	23146	21832	21712	21813	30624	30111	30,807
Cash & Equivalents	620	471	741	867	334	764	766	399	450	1,678
Acc. Receivable	1162	1324	1446	1484	1387	1361	1430	1684	1680	1,615
Inventories	1609	1479	1546	1559	1541	1414	1484	1642	1559	1,426
Goodwill & Int.	10564	12887	13637	13665	13552	13280	13278	21510	21163	21,019
Total Liabilities	12062	14214	15530	16140	16439	16405	17127	24132	22744	22,457
Accounts Payable	995	1149	1423	1611	1684	2047	2120	2746	2854	3,248
Long-Term Debt	6885	7430	7969	8786	9192	8431	9482	15819	14490	13,540
Total Equity	6366	6422	6672	6535	4997	4930	4328	6141	7055	8,059
D/E Ratio	1.08	1.16	1.19	1.34	1.84	1.71	2.19	2.58	2.05	1.68

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.9%	7.9%	8.5%	8.0%	5.4%	7.8%	7.6%	8.1%	5.8%	7.2%
Return on Equity	30.6%	24.5%	28.3%	27.6%	21.2%	34.2%	35.8%	40.7%	26.6%	28.9%
ROIC	14.1%	11.3%	12.6%	11.8%	8.0%	12.0%	11.9%	11.7%	7.9%	10.0%
Shares Out.	644.8	648.5	640.8	612.3	598.7	596.8	576.9	593.0	605.0	616.1
Revenue/Share	22.38	24.99	26.70	27.74	28.49	27.07	26.12	26.87	27.86	28.74
FCF/Share	1.33	2.60	3.47	2.91	2.96	3.33	2.89	3.79	3.75	5.24

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