

Archer-Daniels-Midland (ADM)

Updated November 9th, 2020 by Felix Martinez

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	6.0%	Market Cap:	\$28.2 B
Fair Value Price:	\$48	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/18/2020
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	12/10/2020
Dividend Yield:	3.0%	5 Year Price Target	\$58	Years Of Dividend Growth:	45
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.9%

Overview & Current Events

Archer-Daniels-Midland is the largest publicly traded farmland product company in the United States. The company, which was founded in 1902, trades with a market capitalization of \$28.2 billion. Archer-Daniels-Midland's businesses include the processing of cereal grains and oilseeds and agricultural storage and transportation.

Archer-Daniels-Midland reported its third-quarter earnings results on October 29, 2020. The company reported Adjusted earnings per share of \$0.89 vs. \$0.77 in 3Q19, which increases 15.6% Year over Year (YoY). For the nine months, EPS has grown 30% from \$1.83 for the first nine months of Fiscal Year (FY)2019 to now \$2.38 per share. However, revenues were lower by (9.5)%, from \$16,726 million in the third quarter in 2019 to \$15,126 million this quarter. For the nine months, total revenue is down (4)%. Net income saw a decreased growth from \$407 million to \$225 million, or a (44.7)% decrease YoY. This decrease is the result of lower revenue and other expense which is related to early debt retirement. ADM has not been severely affected by the COVID-19 Shutdown as the company is considered an essential business.

This is what CEO Juan Luciano had to say, "We delivered an outstanding quarter, and I am proud of our team's continued great performance,". Mr. Luciano also mentioned that the company's strong cash generation is allowing them to retire higher-cost debt while retaining balance sheet flexibility." The management team is excited about the company future outlook as it expects that the fourth quarter will be another strong quarter, and the positive momentum will continue through 2021.

The Nutrition segment delivered its fifth consecutive quarter of 20+ percent YoY profit growth. The segment saw an increase of 24% of revenue growth YoY. The Nutrition businesses include flavors, specialty ingredients, and health & wellness. The Ag Services and Oilseeds saw growth of 4.6% from \$417 million to \$436 million YOY. The company also increased its Cash and Cash equivalents from \$932 million to \$948 million or 1.7%. This cash on hand will help the company navigate the current COVID-19 market disruption and maintain the dividend. The current dividend payout is \$607 million.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.06	\$3.13	\$2.26	\$2.02	\$3.43	\$2.98	\$2.16	\$2.13	\$3.19	\$2.44	\$3.20	\$3.89
DPS	\$0.58	\$0.62	\$0.69	\$0.76	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.44	\$1.79
Shares¹	644.0	654.0	666.0	663.0	656.0	621.0	591.0	572.0	567.0	565.0	564.0	550.0

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. EPS in 2012 and 2013 was much lower than in 2011. With the new acquisition of Ziegler Group and the nutrition flavor research and customer center opening, we expect better growth. Thus, we believe that the rate of growth of around 4.0% is feasible for moving forward.

¹ Shares in Millions

Disclosure: This analyst is long the security discussed in this research report.

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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 profit from economic expansion, as the amount of food sold does not rise quickly during good times. A strong economy is thus not a significant tailwind for Archer-Daniels-Midland, unlike for many other companies, which profit substantially from higher consumer spending.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	9.5	10.3	13.1	17.6	13.5	15.4	18.8	20.1	14.30	19.80	15.6	15.0
Avg. Yld.	2.0%	1.9%	2.3%	2.8%	2.1%	2.4%	3.0%	3.0%	2.9%	3.1%	3.0%	3.1%

Archer-Daniels-Midland has been valued at a price to earnings multiple of 15.2 over the last decade. Even though its price to earnings multiple has been as low as 9.5 and as high as 20.1. Now, shares look fairly valued with a current PE of 15.6 based on 2020 expected earnings of \$3.20, which has increased from the last report. Also, investors do get an above-average dividend yield of 3.0% at current prices compared to ADM 5-year dividend yield average of 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	19.0%	19.8%	30.5%	37.6%	28.0%	37.6%	55.6%	60.1%	42.0%	57.4%	45%	46%

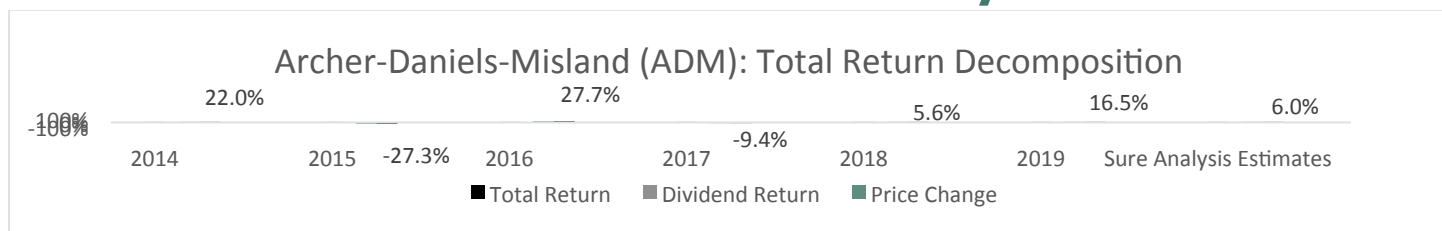
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's strong earnings-per-share growth, the dividend payout ratio declined considerably, to 42% in 2018. The dividend payout ratio is not high, at only 45% based on 2020 earnings. Also, because the company's profits performed well during the last recession, which saw earnings grow from \$2.84 in 2008 to \$3.06 in 2009, we believe that the dividend is relatively safe.

Archer-Daniels-Midland's business is recession resilient since the demand for food products is not cyclical. Archer-Daniels-Midland is one of the most significant players in its industry and has competitive advantages due to its scale and geographical reach. The company has been increasing its dividend for 45 consecutive years, and it has a 5-year dividend growth rate of 7.8%. Archer-Daniels-Midland looks like a low-risk investment due to its recession resilience, solid balance sheet, geographic diversification, and dividend history. However, note that the company balance sheet Debt/Equity ratio increased from 0.40 in FY2019 to 0.43 in this quarterly report. This is higher than the past five-year average, but not at a dangerous level for the company.

Final Thoughts & Recommendation

We expect Archer-Daniels-Midland to grow earnings at ~4.0% annually. Investors get an above-average dividend yield and a price fairly valued at its fair price of \$48. The total return outlook is modest 6.0% annually for the next five years. We still recommended that this company is a Hold at the current price because of the low expected returns. Since the second-quarter report, the company share price has increased by over 25%. Thus, the price increase is lowering our total return outlook.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	61682	80676	89038	89804	81201	67702	62346	60828	64341	64656
Gross Profit	3843	4300	3668	3889	4768	3966	3618	3518	4181	4147
Gross Margin	6.2%	5.3%	4.1%	4.3%	5.9%	5.9%	5.8%	5.8%	6.5%	6.4%
SG&A Exp.	1398	1611	1626	1759	1933	1985	1981	1978	2165	2493
D&A Exp.	912	877	848	909	894	882	900	924	941	993
Operating Profit	2445	2689	2042	2130	2835	1981	1637	1540	2016	1654
Op. Margin	4.0%	3.3%	2.3%	2.4%	3.5%	2.9%	2.6%	2.5%	3.1%	2.6%
Net Profit	1930	2036	1223	1342	2248	1849	1279	1595	1810	1379
Net Margin	3.1%	2.5%	1.4%	1.5%	2.8%	2.7%	2.1%	2.6%	2.8%	2.1%
Free Cash Flow	1077	-3587	1418	4313	4049	580	-7390	-7015	-5626	-6280
Income Tax	666	997	523	670	877	438	534	7	245	209

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	31808	42352	41771	43752	43997	40157	39769	39963	40833	43997
Cash & Equivalents	1046	615	1291	3121	1099	910	619	804	1997	852
Acc. Receivable	N/A	4808	3439	4522	4236	2886	2426	2424	2683	3281
Inventories	7871	12055	12192	11441	9374	8243	8831	9173	8813	9170
Goodwill & Int.	523	602	603	561	3392	3688	3703	3918	4041	5476
Total Liabilities	17177	23514	23602	23558	24367	22242	22588	21641	21837	24772
Accounts Payable	5538	2581	2474	4513	4326	3474	3606	3894	3545	3746
Long-Term Debt	7548	10319	10320	6870	5660	5877	6931	7493	8388	8881
Total Equity	14609	18808	17969	20156	19575	17899	17173	18313	18981	19208
D/E Ratio	0.52	0.55	0.57	0.34	0.29	0.33	0.40	0.41	0.44	0.46

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.1%	5.5%	N/A	3.0%	5.1%	4.4%	3.2%	4.0%	4.5%	3.3%
Return on Equity	13.7%	12.2%	6.7%	6.9%	11.3%	9.9%	7.3%	9.0%	9.7%	7.2%
ROIC	8.8%	7.9%	N/A	4.8%	8.6%	7.5%	5.3%	6.4%	6.8%	5.0%
Shares Out.	644.0	654.0	666.0	663.0	656.0	621.0	591.0	572.0	567.0	565.0
Revenue/Share	95.78	123.36	133.69	135.45	123.78	109.02	105.49	106.34	113.48	113.48
FCF/Share	1.67	-5.48	2.13	6.51	6.17	0.93	-12.50	-12.26	-9.92	-11.12

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

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