General Mills (GIS)

Updated December 18th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$37.2 B
Fair Value Price:	$62	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	1/7/21
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	2/1/21
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 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 mid-December, General Mills reported (12/17/20) financial results for the second 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 7%, its organic sales 7% and its adjusted earnings-per-share 9% over last year's quarter. The pet segment maintained its strong momentum, with 18% revenue growth, thanks to volume growth and price hikes. The earnings-per-share of $1.06 exceeded analysts' consensus by $0.09. As the coronavirus crisis continues to weigh on human lifestyle, the momentum of General Mills has remained strong and thus the company enjoys much stronger growth than it did in the last several years prior to the pandemic.

However, due to positive results in vaccine studies, the pandemic is expected to subside in the second half of 2021. As a result, the stock of General Mills has lost steam and thus it is now trading at the same level it was seven months ago.

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	***16.4***	***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 16.4, 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 0.6% 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.

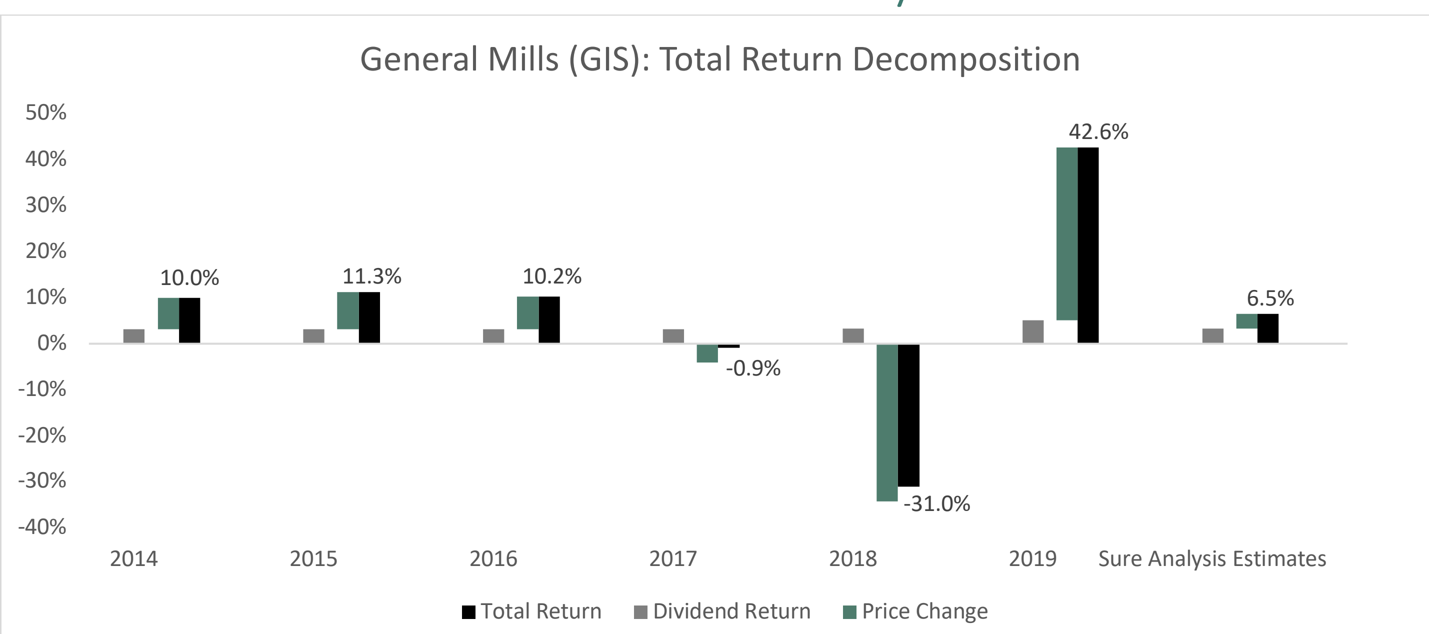
Due to the acquisition of Blue Buffalo, the debt load of General Mills increased materially. In fiscal 2019, interest expense jumped 40% due to this acquisition, from $374 million to $522 million. However, the company reduced its debt by $1.2 billion in fiscal 2019 and $950 million in fiscal 2020. The 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 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 30% off its bottom while the company will be adversely affected if the pandemic subsides late next year. We thus expect General Mills to offer just a 6.5% 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	14,880	16,658	17,774	17,910	17,630	16,563	15,620	15,740	16,865	17,627
Gross Profit	5,954	6,045	6,424	6,370	5,949	5,830	5,568	5,436	5,757	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.	3,192	3,381	3,552	3,474	3,328	3,119	2,889	2,850	2,936	3,152
D&A Exp.	473	542	588	585	588	608	604	619	620	595
Operating Profit	2,762	2,664	2,872	2,896	2,621	2,711	2,679	2,586	2,821	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	1,798	1,567	1,855	1,824	1,221	1,697	1,658	2,131	1,753	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	1,731	2,312	1,878	1,830	2,035	1,731	2,218	2,269	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	18,675	21,097	22,658	23,146	21,832	21,712	21,813	30,624	30,111	30,807
Cash & Equivalents	620	471	741	867	334	764	766	399	450	1,678
Acc. Receivable	1,162	1,324	1,446	1,484	1,387	1,361	1,430	1,684	1,680	1,615
Inventories	1,609	1,479	1,546	1,559	1,541	1,414	1,484	1,642	1,559	1,426
Goodwill & Int.	10,564	12,887	13,637	13,665	13,552	13,280	13,278	21,510	21,163	21,019
Total Liabilities	12,062	14,214	15,530	16,140	16,439	16,405	17,127	24,132	22,744	22,457
Accounts Payable	995	1,149	1,423	1,611	1,684	2,047	2,120	2,746	2,854	3,248
Long-Term Debt	6,885	7,430	7,969	8,786	9,192	8,431	9,482	15,819	14,490	13,540
Total Equity	6,366	6,422	6,672	6,535	4,997	4,930	4,328	6,141	7,055	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.