



# The Kraft-Heinz Company (KHC)

Updated February 12<sup>th</sup>, 2021 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	7.2%	<b>Market Cap:</b>	\$43B
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	03/11/21
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.5%	<b>Dividend Payment Date:</b>	03/26/21
<b>Dividend Yield:</b>	4.6%	<b>5 Year Price Target</b>	\$42	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	-

## Overview & Current Events

Kraft-Heinz is a processed food and beverages company which owns a product portfolio that includes food products such as condiments, sauces, cheese & dairy, frozen & chilled meals, and infant diet & nutrition. The company was created in 2015 in a merger between Kraft Food Group and H. J. Heinz Company, orchestrated by Warren Buffett's Berkshire Hathaway and 3G Capital. Kraft-Heinz is headquartered in Chicago, IL.

The Kraft-Heinz Company reported its fourth quarter earnings results on February 11. The company reported that its revenues totaled \$6.9 billion during the quarter, which was 6% more than the revenues that Kraft-Heinz generated during the previous year's period. This was slightly better than what the analyst community had expected. Kraft-Heinz' organic sales were up by 6%, again comparing favorably to the analyst estimate. The very solid revenue growth pace was partially caused by more at-home food consumption due to the pandemic.

Kraft-Heinz generated earnings-per-share of \$0.80 during the fourth quarter, which easily beat the consensus estimate. Earnings-per-share were up 11% versus the previous year's quarter, which was the best growth performance in a while. The company also generated an attractive EBITDA result, as EBITDA grew by 14% year over year. Management stated that its deleveraging strategy was on track. The company plans to reduce its debt further, while maintaining its dividend at the current level. Management indicated that Kraft-Heinz would see some more growth during Q1 of 2021, with both revenues and EBITDA expected to grow slightly year over year.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	---	---	---	---	\$2.19	\$3.33	\$3.55	\$3.51	\$2.85	\$2.88	<b>\$2.90</b>	<b>\$3.20</b>
<b>DPS</b>	---	---	---	---	\$1.13	\$2.35	\$2.45	\$2.50	\$1.60	\$1.60	<b>\$1.60</b>	<b>\$1.60</b>
<b>Shares<sup>1</sup></b>	---	---	---	---	1210	1226	1228	1220	1225	1230	<b>1230</b>	<b>1200</b>

The Kraft-Heinz Company does not have a long history in the form it currently exists in, which is why we are not able to provide much data. The two companies that merged to create Kraft-Heinz both have a long history, though. As a food and beverages company, Kraft-Heinz is not operating in a high-growth industry. The company therefore will, in all likelihood, not be able to generate enormous growth rates going forward. Even in a low-growth industry companies can generate positive returns, though. In Kraft-Heinz' case there are several avenues for growth the company can pursue.

The first factor is international expansion. Market penetration in many emerging countries is not very high. These markets are huge and they are growing relatively quickly. Due to steadily rising disposable incomes in countries such as China and India, more consumers have the means to purchase consumer goods from Western companies such as Kraft-Heinz, which results in a positive outlook for Kraft-Heinz' international business. Another factor for earnings growth is margin expansion, as Kraft-Heinz' management is experienced in cutting costs. We believe that margins will remain high, and they could rise further over the coming years. Last but not least, Kraft-Heinz should benefit from debt reduction that results in declining interest expenses. On the other hand, changing consumer behavior is a headwind for Kraft-Heinz, mainly in the US, which is why we believe that earnings will not grow at a rapid pace in future years.

<sup>1</sup>In Millions

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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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	18.5	24.9	24.2	12.3	11.2	11.8	12.1	13.0
Avg. Yld.	---	---	---	---	2.8%	2.8%	2.9%	4.9%	5.0%	4.7%	4.6%	3.8%

Kraft-Heinz' shares traded at quite high valuations during 2016 and 2017. This was not justified, we believe, as Kraft-Heinz has never been a high-growth company, or a company that deserved a 20+ earnings multiple. The impairment charges in the recent past have made investors more wary regarding the company's shares, which is why Kraft-Heinz' shares will likely continue to trade at a huge discount relative to how the company's shares were valued in the past. Our fair value earnings multiple is not very high, but we believe that shares have some upside potential to that level right now. The dividend yield is at an above-average level of more than 4% right now.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	51.6%	70.6%	69.1%	71.2%	56.1%	55.6%	55.2%	50.0%

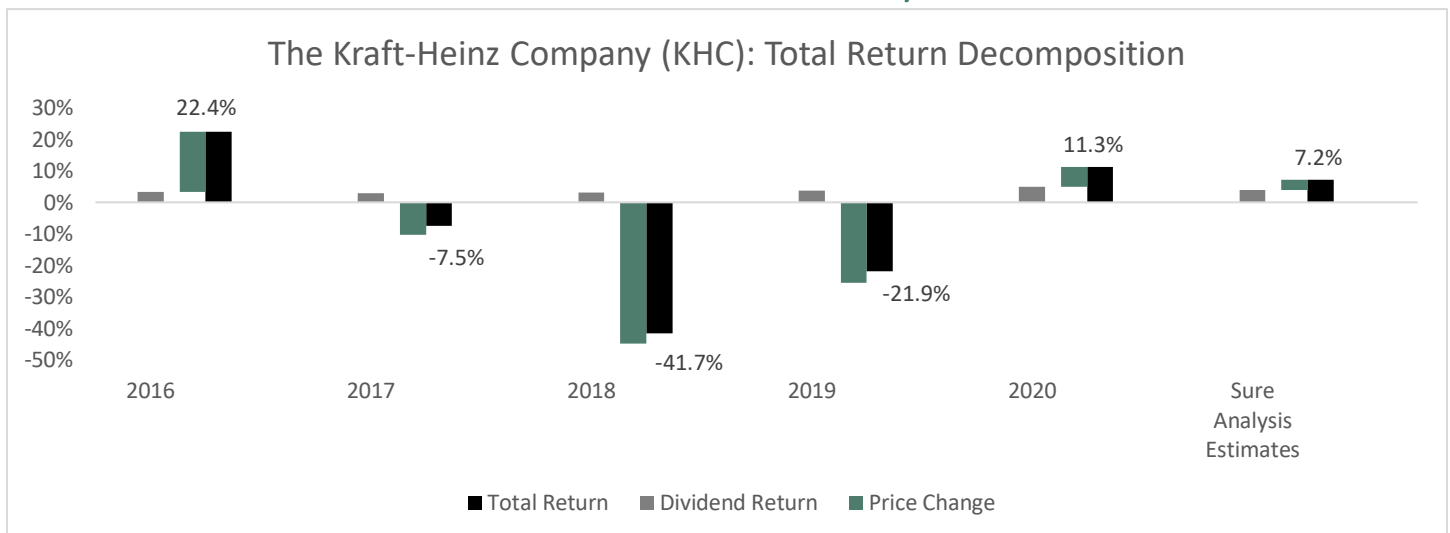
Kraft-Heinz does not have a long dividend history, and after the recent dividend cut, even its short dividend history is not really convincing. The dividend looks sustainable at the current level, another cut thus seems unlikely. We are forecasting the payout ratio to decline over time as earnings should rise in the long run.

Kraft-Heinz' brands are strong and recognized by most consumers, and demand for food is not cyclical or dependent on economic conditions. Kraft-Heinz therefore should be able to remain profitable in economic downturns, as do most consumer staples companies. Kraft-Heinz' brands function as a competitive advantage. Shifting consumer preferences are a headwind for Kraft-Heinz, though, as more consumers chose healthier options such as non-processed foods.

## Final Thoughts & Recommendation

Kraft-Heinz' shares' performance in recent months has been solid, as shares are up since our last update on the company. We believe that, thanks to international growth, the company should be able to generate some earnings growth in the long run, but Kraft-Heinz will never turn into a high-growth company. Due to a solid total return forecast, and due to the fact that Kraft-Heinz trades below fair value right now, we rate the stock a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	18,576	18,271	18,218	18,205	18,338	26,300	26,076	26,268	24,977	26,185
<b>Gross Profit</b>	5,763	5,772	6,823	4,845	5,761	9,146	9,033	8,921	8,147	9,177
<b>Gross Margin</b>	31.0%	31.6%	37.5%	26.6%	31.4%	34.8%	34.6%	34.0%	32.6%	35.0%
<b>SG&amp;A Exp.</b>	2,937	2,961	2,124	2,956	3,122	3,527	2,927	3,190	3,178	3,650
<b>D&amp;A Exp.</b>	364	428	393	385	740	1,337	1,031	983	994	969
<b>Operating Profit</b>	2,826	2,811	4,699	1,889	2,639	5,619	6,106	5,731	4,969	5,527
<b>Op. Margin</b>	15.2%	15.4%	25.8%	10.4%	14.4%	21.4%	23.4%	21.8%	19.9%	21.1%
<b>Net Profit</b>	1,775	1,642	2,715	1,043	634	3,596	10,941	-10,192	1,935	356
<b>Net Margin</b>	9.6%	9.0%	14.9%	5.7%	3.5%	13.7%	42.0%	-38.8%	7.7%	1.4%
<b>Free Cash Flow</b>	2,263	2,595	1,486	1,485	624	1,401	(693)	1,748	2,784	4,333
<b>Income Tax</b>	1,101	811	1,375	363	366	1,333	(5,482)	(1,067)	728	669

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets (\$B)</b>	21539	23179	23148	22947	122973	120480	120092	103461	101450	99830
<b>Cash &amp; Equivalents</b>	-	1255	1686	1293	4837	4204	1629	1130	2279	3417
<b>Accounts Receivable</b>	903	1089	1048	1080	1454	898	1274	2129	1973	2063
<b>Inventories</b>	1943	1928	1616	1775	2618	2684	2760	2667	2721	2554
<b>Goodwill &amp; Int. (\$B)</b>	13946	13827	13734	13638	105171	103422	104257	85971	84198	79756
<b>Total Liabilities</b>	4951	19607	17961	18582	56760	62906	54022	51686	49701	49587
<b>Accounts Payable</b>	1447	1556	1548	1537	2844	3996	4362	4153	4003	4304
<b>Long-Term Debt</b>	35	9966	9980	10032	25234	32404	31503	31168	29244	28306
<b>Shareholder's Equity</b>	16588	3572	5187	4365	57685	57358	65863	51657	51623	50103
<b>D/E Ratio</b>	0.00	2.79	1.92	2.30	0.38	0.56	0.48	0.60	0.57	0.57

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>		7.3%	11.7%	4.5%	0.9%	3.0%	9.1%	-9.1%	1.9%	0.4%
<b>Return on Equity</b>		16.3%	62.0%	21.8%	2.0%	6.3%	17.8%	-17.3%	3.7%	0.7%
<b>ROIC</b>		10.9%	18.9%	7.1%	1.2%	4.0%	11.7%	-11.3%	2.4%	0.4%
<b>Shares Out.</b>	---	---	---	---	1210	1226	1228	1220	1225	1230
<b>Revenue/Share</b>	31.43	30.66	30.41	30.44	23.33	21.45	21.23	21.55	20.41	21.32
<b>FCF/Share</b>	3.83	4.35	2.48	2.48	0.79	1.14	(0.56)	1.43	2.27	3.53

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

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