



Sysco Corporation (SYY)

Updated February 4th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	4.0%	Market Cap:	\$38.8 B
Fair Value Price:	\$58	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	4/2/21 ¹
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	4/24/21 ²
Dividend Yield:	2.4%	5 Year Price Target	\$81	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	B	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 roughly \$38.8 billion.

On February 2nd, 2021, Sysco reported second quarter Fiscal Year (FY)2021 results. Sales decreased by (23.1)% to \$11.6 billion, gross profit decreased by (25.8)% to \$2.1 billion, and gross margin decreased by 67 basis points. For the first half of FY2021, the company has seen sales decreased (23.1)% to 23.3 billion, compared to the first half of FY2020 of \$30.3 billion. Gross profit also saw a meaningful decrease of (25.2)% to \$4.3 billion for the first half. Operating income fell by a whopping (48.3)% to \$631.6 million, while adjusted operating income declined by (56.3)% to \$598.7million. Net earnings were \$67 million for the quarter vs. \$383 million in 2Q20. This is a difference of (82.4)%. Net earnings are down (66.1)% for the six months, from \$837 million to \$284 million. On a per-share basis, The Company has only earned \$0.56 per share compared to \$1.62 per share for the six months, which is a decrease of (65.4)%.

We will use normalized earnings for our FY2021 estimate. Averaging the past three years of earning, we obtain \$2.90 per share. Thus, we expect the company to make \$2.90 per share for the year. The normalized earnings will be used for our fair value and valuation calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.96	\$1.93	\$1.78	\$1.76	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$2.90	\$4.07
DPS	\$1.03	\$1.07	\$1.11	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.80	\$2.64
Shares³	589.0	589.0	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	511.0	510.0

Sysco has grown earnings by 6.7% annually over the past five years and 0.3% over the past nine years. Earnings were growing nicely until the COVID-19 pandemic, which caused FY2020 earnings to decrease. 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 12% earnings growth over the next 3 years, and we anticipate 7.0% growth over the next 5 years.

If it weren't for the COVID-19 disruptions to the business – while still allowing for some permanent impairment due to customer bankruptcies and closures – we assume earnings-per-share “earnings power” of \$2.90 for this year for the company, which is reflected in our fair value price estimate and valuation multiple estimate in the Key Metrics table.

¹ Estimated Date

² Estimated Date

³ Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.1	17.1	20.4	22.1	20.8	24.9	22.2	18.70	30.80	44.50	26.3	20.00
Avg. Yld.	3.3%	3.6%	3.3%	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.4%	3.3%

Over the past decade, Sysco has averaged a P/E ratio of 23.7. 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 estimates to 20 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	52.6%	55.4%	62.4%	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	62%	65%

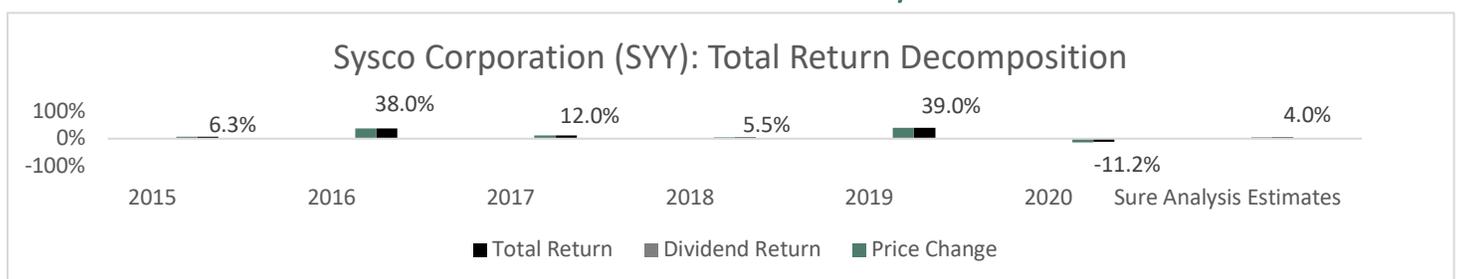
Sysco has an economic moat due to its large scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the fact that the company generates double-digit returns on invested capital every year, which is much higher than its weighted average capital cost. 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 since it went public, and we expect it to continue to grow in the years to come.

As one blemish, Sysco's balance sheet is mediocre. The company has a current Debt to Equity ratio of 10.2, which is high. Sysco's stable cash flows should allow them to service the debt in most environments comfortably, but this level of leverage limits the company's flexibility in the future. 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 lower end of the investment-grade.

Final Thoughts & Recommendation

Sysco has a 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 coronavirus outbreak's uncertain impacts. We expect Sysco to generate 4.0% annual compounded returns going forward, though this might be reduced downward if the pandemic's effects appear to be prolonged. For now, we rate the stock a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue						50367	55371	58727	60114	52893
Gross Profit						9040	10558	11085	11409	9902
D&A Exp.						663	902	765	764	914
Operating Profit						1851	2055	2314	2330	750
Operating Margin						3.7%	3.7%	3.9%	3.9%	1.4%
Net Profit						950	1143	1431	1674	215
Net Margin						1.9%	2.1%	2.4%	2.8%	0.4%
Free Cash Flow						1461	1546	1468	1719	898
Income Tax						483	624	525	332	78

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets						16722	17757	18070	17967	22628
Cash & Equivalents						3919	870	552	513	6059
Acc. Receivable						3381	4012	4074	4182	2894
Inventories						2639	2996	3125	3216	3095
Goodwill & Int. Ass.						2329	4954	4935	4754	4513
Total Liabilities						13242	15375	15563	15464	21470
Accounts Payable						2936	3971	4136	4315	3447
Long-Term Debt						7435	8195	8327	8163	14447
Total Equity						3480	2382	2507	2503	1159
D/E Ratio						2.14	3.44	3.32	3.26	12.47

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						5.5%	6.6%	8.0%	9.3%	1.1%
Return on Equity						21.7%	39.0%	58.5%	66.8%	11.8%
ROIC						8.1%	10.6%	13.4%	15.6%	1.6%
Shares Out.						577.0	549.0	529.0	523.0	514.0
Revenue/Share						87.23	100.94	111.00	114.86	102.90
FCF/Share						2.53	2.82	2.77	3.28	1.75

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

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