



Archer-Daniels-Midland (ADM)

Updated May 9th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	7.8%	Market Cap:	\$37.4 B
Fair Value Price:	\$67	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/18/2021
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date:	06/09/2021
Dividend Yield:	2.2%	5 Year Price Target	\$89	Years Of Dividend Growth:	46
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.8%

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 \$37.4 billion. Archer-Daniels-Midland's businesses include the processing of cereal grains and oilseeds and agricultural storage and transportation.

Archer-Daniels-Midland reported its first-quarter for Fiscal Year (FY)2021 earnings results on April 27, 2021. ADM had a great quarter to start the new fiscal year. The Company reported Adjusted earnings per share of \$1.39 vs. \$0.64 in 1Q20, which increased 117% Year over Year (YoY). Revenues were up by 26%, from \$14,970 million in the first quarter in 2020 to \$18,893 million this quarter. The Ag Services and Oilseeds segments brought in \$777 million, which is \$355 million more than 1Q20. Net income saw an increased growth from \$391 million to \$693 million, or a 77% growth for the quarter year compared to 1Q20. ADM has not been severely affected by the COVID-19 Shutdown as the Company is considered an essential business.

The management team is excited about its future outlook as it expects that the second quarter will be another strong quarter, and the positive momentum will continue through 2021. They also expect strong growth in segment operating profit and another record year of EPS in 2021. Management expects a significant year-over-year increase in earnings across all three of its businesses in 2021 and continued sustainable growth in the years to come.

On January 26, 2021, The Company increased its dividend from \$0.36 per share per quarter to \$0.37 per share per quarter. This is an increase of 2.8%.⁵

We increased our expected earnings for the full year from \$3.83 per share to now \$4.45 per share, this is an increase of 16.2%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.05	\$2.25	\$2.33	\$3.20	\$2.55	\$2.16	\$2.13	\$3.50	\$3.24	\$3.59	\$4.45	\$5.96
DPS	\$0.62	\$0.69	\$0.76	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.44	\$1.48	\$1.72
Shares¹	642.0	659.0	659.0	655.0	595.0	573.0	557.0	559.0	557.0	556.0	556.0	556.0

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. We expect better growth with the new acquisition of Ziegler Group and the nutrition flavor research and customer center opening. Thus, we believe that the rate of growth of around 6.0% is feasible for moving forward.

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. Thus, a strong economy is not a significant tailwind for Archer-Daniels-Midland, unlike many other companies, which profit substantially from higher consumer spending.

¹ Shares in Millions

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



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.3	13.1	17.6	13.5	15.4	18.8	20.1	14.30	17.10	14.80	15.1	15.0
Avg. Yld.	1.9%	2.3%	2.8%	2.1%	2.4%	3.0%	3.0%	2.9%	3.1%	3.3%	2.2%	2.5%

Archer-Daniels-Midland has been valued at a price to earnings multiple of 15.5 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 15.1 based on 2021 expected earnings of \$4.45, which has increased from the last report. Also, investors get an above-average dividend yield of 2.2% at current prices than the S&P current dividend yield of 1.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	20.3%	30.7%	32.6%	30.0%	43.9%	55.6%	60.1%	38.3%	53.2%	40.1%	33%	29%

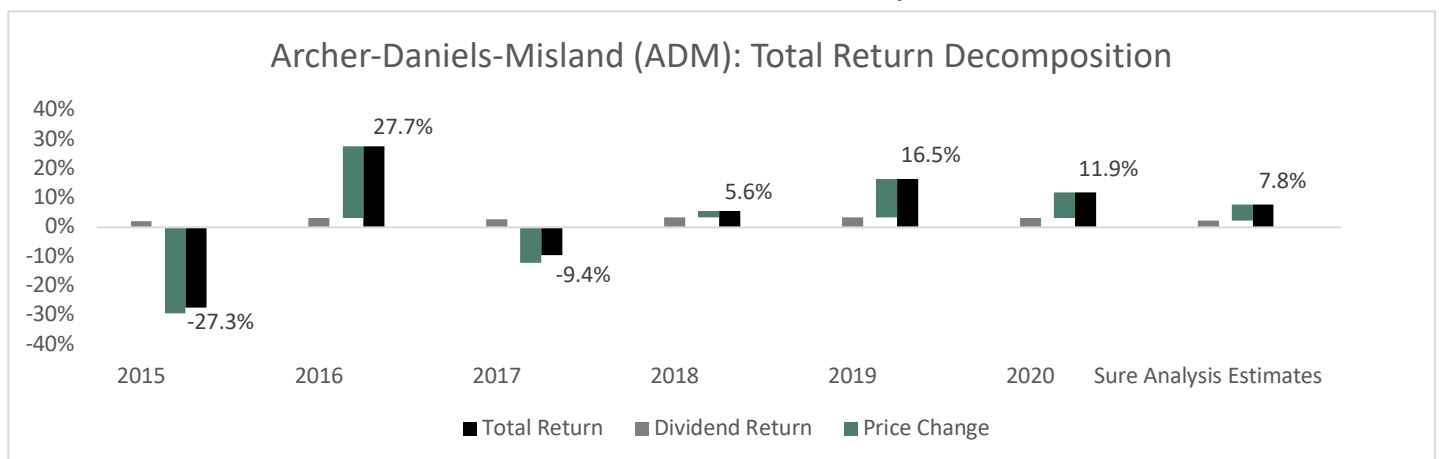
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's earnings-per-share solid growth, the dividend payout ratio declined considerably, to 38% in 2018. The dividend payout ratio is not high, at only 33% based on 2021 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 46 consecutive years, and it has a 5-year dividend growth rate of 4.3%. 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 0.44 in FY2020 to 0.59 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 ~6.0% annually. Investors get an above-average dividend yield and a price fairly valued at its fair price of \$67. The total return outlook is modest 7.8% annually for the next five years. We recommend that this company is a Hold at the current price because of the low expected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	80676	89038	89804	81201	67702	62346	60828	64341	64656	64355
Gross Profit	4300	3668	3889	4768	3966	3618	3518	4181	4147	4453
Gross Margin	5.3%	4.1%	4.3%	5.9%	5.9%	5.8%	5.8%	6.5%	6.4%	6.9%
SG&A Exp.	1611	1626	1759	1933	1985	1981	1978	2165	2493	2687
D&A Exp.	877	848	909	894	882	900	924	941	993	976
Operating Profit	2689	2042	2130	2835	1981	1637	1540	2016	1654	1766
Op. Margin	3.3%	2.3%	2.4%	3.5%	2.9%	2.6%	2.5%	3.1%	2.6%	2.7%
Net Profit	2036	1223	1342	2248	1849	1279	1595	1810	1379	1772
Net Margin	2.5%	1.4%	1.5%	2.8%	2.7%	2.1%	2.6%	2.8%	2.1%	2.8%
Free Cash Flow	-3587	1418	4313	4049	580	-7390	-7015	-5626	-6280	-3209
Income Tax	997	523	670	877	438	534	7	245	209	101

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	42352	41771	43752	43997	40157	39769	39963	40833	43997	33581
Cash & Equivalents	615	1291	3121	1099	910	619	804	1997	852	666
Acc. Receivable	4808	3439	4522	4236	2886	2426	2424	2683	3281	
Inventories	12055	12192	11441	9374	8243	8831	9173	8813	9170	
Goodwill & Int.	602	603	561	3392	3688	3703	3918	4041	5476	5413
Total Liabilities	23514	23602	23558	24367	22242	22588	21641	21837	24772	13559
Accounts Payable	2581	2474	4513	4326	3474	3606	3894	3545	3746	
Long-Term Debt	10319	10320	6870	5660	5877	6931	7493	8388	8881	0
Total Equity	18808	17969	20156	19575	17899	17173	18313	18981	19208	20022
D/E Ratio	0.55	0.57	0.34	0.29	0.33	0.40	0.41	0.44	0.46	0

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.5%	N/A	3.0%	5.1%	4.4%	3.2%	4.0%	4.5%	3.3%	4.6%
Return on Equity	12.2%	6.7%	6.9%	11.3%	9.9%	7.3%	9.0%	9.7%	7.2%	9.0%
ROIC	7.9%	N/A	4.8%	8.6%	7.5%	5.3%	6.4%	6.8%	5.0%	7.4%
Shares Out.	654.0	666.0	663.0	656.0	621.0	591.0	572.0	567.0	565.0	556
Revenue/Share	123.36	133.69	135.45	123.78	109.02	105.49	106.34	113.48	113.48	114.31
FCF/Share	-5.48	2.13	6.51	6.17	0.93	-12.50	-12.26	-9.92	-11.12	-5.70

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

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