



Sysco Corporation (SYY)

Updated June 5th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$80	5 Year CAGR Estimate:	5.5%	Market Cap:	\$41.1 B
Fair Value Price:	\$66	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	04/01/21
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date:	07/23/21
Dividend Yield:	2.4%	5 Year Price Target	\$93	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	4.4%

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 \$41.1 billion.

On May 4th, 2021, Sysco reported third-quarter results for Fiscal Year (FY)2021. Sales decreased by (13.7)% to \$11.8 billion compared to the same period last year. Gross profit decreased by (17.2)% to \$2.1 billion, and gross margin decreased by 77 basis points to 18% vs. the third quarter of FY2020. Driven by reduced costs from the achievement of cost-out initiatives and a benefit from lowering its allowance for doubtful accounts, operating expenses decreased \$617.2 million, or 24.6%, compared to the same period last year. Thus, Operating income saw an increase of 291.4% for the Company in the quarter to \$617.2 million. The Company is currently leveraging its balance sheet strength to invest more into the business with more inventory, fleet, people, and technology while reducing its debt levels to reflect the improving business environment. For the nine months of the Company FY2021, Sysco has made \$35.2 billion in sales, which is down (20)% compared to the nine months of FY2020. Thus, The Company earned \$0.73 per share for the year vs. \$1.62 this time last year. On May 24th, 2021, Sysco announced a 4.4% dividend increase from \$0.45 per share per quarter to \$0.47 per share per quarter.

We will use normalized earnings for our FY2021 estimate. Thus, we expect Sysco to make \$3.30 per share for the year in a typical environment. 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	\$3.30	\$4.63
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
Shares¹	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 9.5% annually over the past five years and earnings growth of 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 7% earnings growth over the next three years, and we anticipate 7.0% growth over the next five 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 \$3.30 for this year for the Company, which is reflected in our fair value price estimate and valuation multiple estimates in the Key Metrics table.

¹ 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	24.1	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%	2.9%

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%	55%	57%

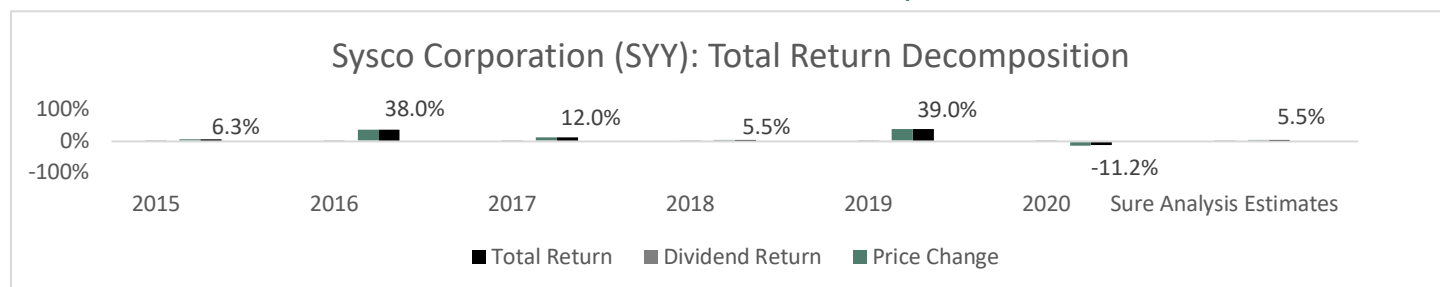
Sysco has an economic moat due to its large-scale and entrenched distribution infrastructure, which gives it a cost advantage over most competitors. This moat is evidenced by the fact that the Company generates double-digit returns on invested capital every year, which is much higher than its weighted 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 9.6, which is high.

Sysco's stable cash flows should allow them to service the debt in most environments comfortably, but this leverage level limits the Company's flexibility in the future. Most of this debt increase occurred within the past few years and took part in 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 5.5% annual compounded returns as we advance, though this might be reduced downward if the pandemic's effects appear to be prolonged. For now, we rate the stock a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	39323	42381	44411	46517	48681	50367	55371	58727	60114	52893
Gross Profit	7395	7779	7997	8181	8552	9040	10558	11085	11409	9902
D&A Exp.	18.8%	18.4%	18.0%	17.6%	17.6%	663	902	765	764	914
Operating Profit	403	417	510	548	553	1851	2055	2314	2330	750
Operating Margin	1932	1891	1658	1587	1229	3.7%	3.7%	3.9%	3.9%	1.4%
Net Profit	4.9%	4.5%	3.7%	3.4%	2.5%	950	1143	1431	1674	215
Net Margin	1152	1122	992	932	687	1.9%	2.1%	2.4%	2.8%	0.4%
Free Cash Flow	2.9%	2.6%	2.2%	2.0%	1.4%	1461	1546	1468	1719	898
Income Tax	455	620	1000	970	1013	483	624	525	332	78

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	11386	12137	12678	13141	17989	16722	17757	18070	17967	22628
Cash & Equivalents	640	689	412	413	5130	3919	870	552	513	6059
Acc. Receivable	2898	2967	3183	3399	3353	3381	4012	4074	4182	2894
Inventories	2074	2179	2396	2602	2692	2639	2996	3125	3216	3095
Goodwill & Int. Ass.	1743	1779	2090	2128	2115	2329	4954	4935	4754	4513
Total Liabilities	6680	7452	7486	7874	12729	13242	15375	15563	15464	21470
Accounts Payable	2183	2209	2428	2831	2882	2936	3971	4136	4315	3447
Long-Term Debt	2669	3018	2889	2733	7322	7435	8195	8327	8163	14447
Total Equity	4705	4685	5192	5267	5260	3480	2382	2507	2503	1159
D/E Ratio	0.57	0.64	0.56	0.52	1.39	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	10.6%	9.5%	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%
Return on Equity	27.0%	23.9%	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%
ROIC	16.8%	14.9%	12.6%	11.6%	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%
Shares Out.	589.0	589.0	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0
Revenue/Share	66.80	71.96	74.93	78.81	81.56	87.23	100.94	111.00	114.86	102.90
FCF/Share	0.77	1.05	1.69	1.64	1.70	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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