



Tyson Foods Inc. (TSN)

Updated August 9th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$77	5 Year CAGR Estimate:	7.5%	Market Cap:	\$28 B
Fair Value Price:	\$86	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	08/31/21
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	09/15/21
Dividend Yield:	2.3%	5 Year Price Target	\$100	Years Of Dividend Growth:	10
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	6.0%

Overview & Current Events

Tyson Foods, founded in 1935, is one the world's largest processors and marketers of chicken, beef and pork products. The company was founded by John Tyson, an Arkansas farmer who started out as a small businessman hauling chickens to Midwestern markets. Today, Tyson Foods sells products to leading grocery chains, food franchises, and military commissaries in over 100 countries. Well-known brands include Tyson, Jimmy Dean, Hillshire Farm, Ball Park and State Fair. The \$28 billion market cap company generated \$43 billion in revenue last year.

On August 9th, 2021, Tyson Foods released Q3 2021 results for the period ending July 3rd, 2021. (Tyson's fiscal year ends the Saturday nearest September 30th.) For the quarter sales came in at \$12.48 billion, a 24.5% increase compared to Q3 2020. Gains were across the board, with a 35.6% increase in Beef, an 11.7% increase in Chicken, a 14.2% increase in Prepared Foods and a 53.8% increase in Pork. Adjusted operating income equaled \$1.372 billion compared to \$758 million in Q3 2020, while adjusted earnings-per-share equaled \$2.70 versus \$1.40 in the year ago period.

Tyson also updated its 2021 outlook. The company now expects \$46 billion to \$47 billion in sales (up from \$44 - \$46 billion) and net interest of \$420 million.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.97	\$1.90	\$2.26	\$2.92	\$3.21	\$4.53	\$5.31	\$6.16	\$5.46	\$5.78	\$7.20	\$8.35
DPS	\$0.16	\$0.17	\$0.33	\$0.33	\$0.45	\$0.60	\$0.90	\$1.20	\$1.50	\$1.71	\$1.78	\$2.38
Shares ¹	370	359	344	376	369	361	368	366	366	365	365	360

During the 2010 through 2020 period, Tyson Foods grew earnings-per-share by nearly 11% per annum.

Tyson Foods has growth potential through both acquisitions and rising global demand for its products. With that being said, investors must be cautious of rising costs paired with the company's low operating margins, a factor capable of causing a material impact on profits. While demand for Tyson's main product segments will grow at steady rates, the company's ability to outpace rising costs may come from growth in emerging segments such as Prepared Foods, as well as heightened international exposure, credited to the recent acquisition of the Thai and European Operations of BRF SA. Another consideration is the dependence on large grocers, namely Walmart.

The COVID-19 pandemic has certainly impacted the business, but perhaps not to the same degree as your typical firm. Demand has remained; however, the channel by which it is consumed – less foodservice and more retail – has been altered in the short-term. After solid Q3 2021 results, we are forecasting much higher 2021 EPS and a 3% growth rate.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.9	9.7	10.4	12.5	12.8	13.6	11.9	11.6	12.9	12.3	10.7	12.0
Avg. Yld.	0.9%	0.9%	1.4%	0.9%	1.1%	1.0%	1.4%	1.8%	2.2%	2.4%	2.3%	2.4%

¹ 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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Since 2011 shares of Tyson Foods have traded hands with an average P/E ratio of about 12 times earnings. We believe 12 times earnings is a reasonable starting position, considering the average growth prospects and general quality of the firm, paired against short-term uncertainties. With shares currently trading near 11 times our 2021 earnings expectation, this implies the possibility of a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Payout	8%	9%	15%	11%	14%	13%	17%	19%	27%	30%	25%	29%

Strong operating cash flows, a historically successful capital allocation strategy, and strategic acquisition capabilities that have generated substantial returns on investment have been competitive advantages for Tyson Foods over the years.

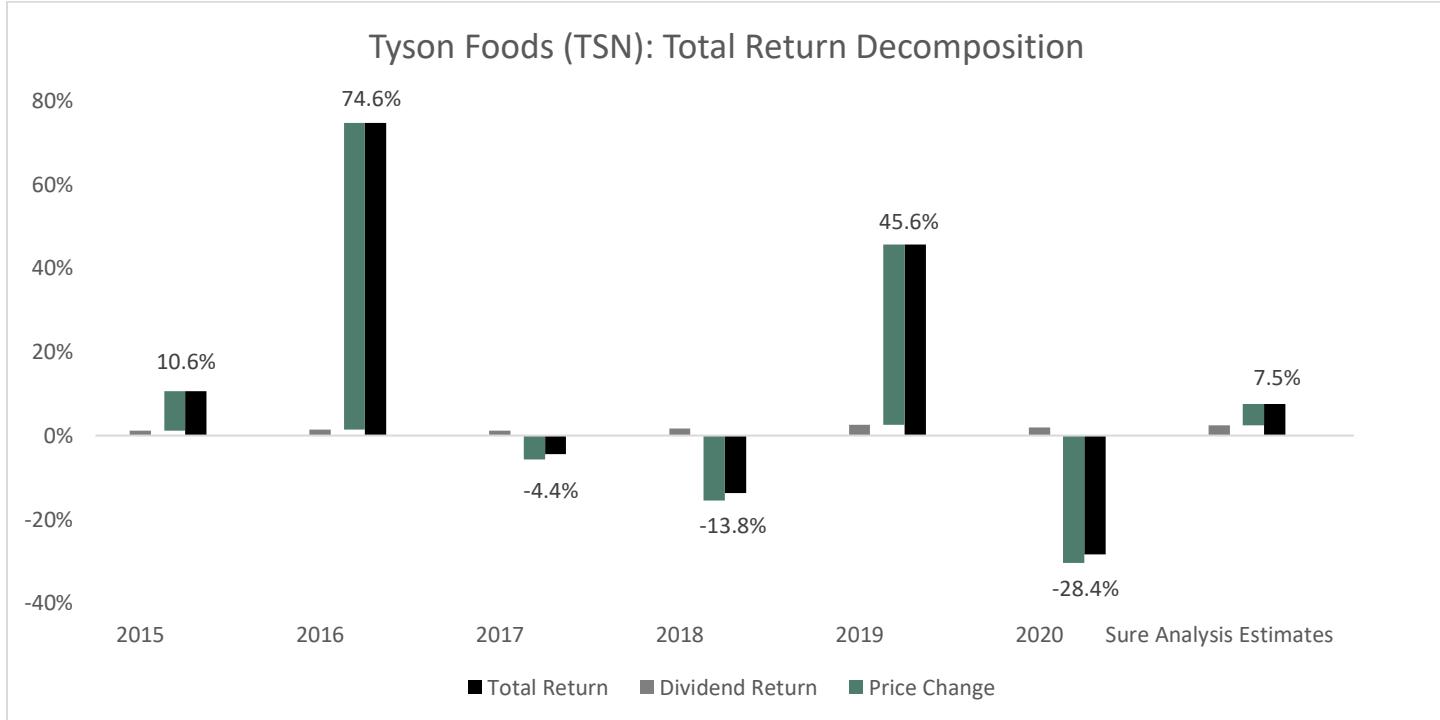
During the last recession, Tyson Foods posted earnings-per-share of \$0.75, \$0.24, \$0.06, and \$2.06, during the 2007 through 2010 period – showing the type of cyclical that is possible with this company. However, we are encouraged on two fronts. First, earnings did bounce back and now are much higher. Second, the dividend was held steady during the last recession, at \$0.16 annually, and has been increased at a substantial rate since that time.

As of the most recent quarter Tyson held \$1.6 billion in cash, \$9.2 billion in current assets and \$35.7 billion in total assets against \$6.2 billion in current liabilities and \$19.0 billion in total liabilities. Long-term debt stood at \$8.8 billion, requiring an estimated \$420 million in interest expense this year.

Final Thoughts & Recommendation

Shares are unchanged since our last report. In our view, the main challenge for Tyson Foods will be maintaining production efficiencies in order to combat rising costs and differentiating itself in the face of heavy competition. Total return potential comes in at 7.5% per annum, driven by 3% growth, a 2.3% starting yield and the potential for a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	32032	33055	34374	37580	41373	36881	38260	40052	42405	43180
Gross Profit	2195	2190	2358	2685	3917	4697	5062	5096	5022	5384
Gross Margin	6.9%	6.6%	6.9%	7.1%	9.5%	12.7%	13.2%	12.7%	11.8%	12.5%
SG&A Exp.	906	904	983	1255	1748	1864	2141	2064	2195	2376
D&A Exp.	506	499	519	530	711	705	761	943	1098	1192
Operating Profit	1289	1286	1375	1430	2169	2833	2921	3032	2827	3008
Operating Margin	4.0%	3.9%	4.0%	3.8%	5.2%	7.7%	7.6%	7.6%	6.7%	7.0%
Net Profit	750	583	778	864	1220	1768	1774	3024	2022	2061
Net Margin	2.3%	1.8%	2.3%	2.3%	2.9%	4.8%	4.6%	7.6%	4.8%	4.8%
Free Cash Flow	403	497	756	546	1716	2021	1530	1763	1254	2675
Income Tax	340	351	409	396	697	826	850	-282	396	593

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	11071	11896	12177	23956	22969	22373	28066	29109	33097	34460
Cash & Equivalents	716	1071	1145	438	688	349	318	270	484	1420
Accounts Receivable	1321	1378	1497	1684	1620	1542	1675	1723	2173	1952
Inventories	2587	2809	2817	3274	2878	2732	3239	3513	4108	3859
Goodwill & Int. Ass.	2041	2020	2040	11982	11835	11753	15567	16498	17881	17670
Total Liabilities	5386	5854	5944	15052	13263	12749	17507	16298	18871	19070
Accounts Payable	1264	1372	1359	1806	1662	1511	1698	1694	1926	1876
Long-Term Debt	2182	2432	2408	8178	6690	6279	10203	9873	11932	11340
Shareholder's Equity	5657	6012	6201	8890	9691	9608	10541	12803	14082	15250
D/E Ratio	0.39	0.40	0.39	0.92	0.69	0.65	0.97	0.77	0.85	0.74

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.9%	5.1%	6.5%	4.8%	5.2%	7.8%	7.0%	10.6%	6.5%	6.1%
Return on Equity	13.9%	10.0%	12.7%	11.5%	13.1%	18.3%	17.6%	25.9%	15.0%	14.1%
ROIC	9.6%	7.1%	9.1%	6.7%	7.3%	10.9%	9.7%	13.9%	8.3%	7.8%
Shares Out.	380.00	370.00	367.00	364.00	413.00	390.00	370.00	369.00	366.00	365.00
Revenue/Share	84.29	89.34	93.66	103.24	100.18	94.57	103.41	108.54	115.86	118.32
FCF/Share	1.06	1.34	2.06	1.50	4.16	5.18	4.14	4.78	3.43	7.33

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

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