



Sysco Corporation (SYY)

Updated March 10th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$80	5 Year CAGR Estimate:	4.0%	Market Cap:	\$38.2 B
Fair Value Price:	\$61	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	03/31/22
% Fair Value:	131%	5 Year Valuation Multiple Estimate:	-5.3%	Dividend Payment Date:	04/22/22
Dividend Yield:	2.4%	5 Year Price Target	\$86	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 roughly \$38.2 billion market capitalization.

On February 8th, 2022, Sysco reported second-quarter results for Fiscal Year (FY)2022. Sales for the quarter were \$16.3 billion, an increase of 41.2% versus the same period in the fiscal year 2021 and an increased of 10.5% versus the same period in the fiscal year 2019. For the six months of the fiscal year, sales grew by 40.5% to \$32.8 billion compared to the six months in FY2021. Gross profit increased 37.8% to \$2.9 billion compared to the same period last year, and gross profit increased 35.8% compared to the same six months period in the fiscal year 2021. Gross profit increased across all segments. Results for the quarter were below management's expectations due to higher than anticipated operating expenses, driven by the current COVID environment. However, The U.S. Foodservice Operations segment saw continued growth resulting in overall share gain.

The company earned \$0.33 per share for the quarter, up 153% compared to the second quarter of FY2021.

We will use normalized earnings for our FY2022 estimate. Thus, we expect Sysco to make \$3.05 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.93	\$1.78	\$1.76	\$1.84	\$2.10	\$2.34	\$3.14	\$3.55	\$2.01	\$1.44	\$3.05	\$4.28
DPS	\$1.07	\$1.11	\$1.15	\$1.19	\$1.23	\$1.30	\$1.41	\$1.53	\$1.74	\$1.88	\$1.88	\$2.76
Shares¹	589.0	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0	514.0	514.0

Sysco has grown earnings by 5.4% annually over the past five years and earnings growth of (3.2)% over the past nine years. Earnings were growing nicely until the COVID-19 pandemic, which caused FY2020 and FY2021 earnings to decrease. The company 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.

Suppose it weren't for the COVID-19 disruptions to the business. In that case, while still allowing for some permanent impairment due to customer bankruptcies and closures – we assume earnings-per-share "earnings power" of \$3.05 for the fiscal year 2022 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.1	20.4	22.1	20.8	24.9	22.2	18.70	30.80	27.20	54.00	26.2	20.0
Avg. Yld.	3.6%	3.3%	3.1%	3.3%	2.4%	2.6%	2.1%	2.2%	3.2%	2.3%	2.4%	3.2%

Over the past decade, Sysco has averaged a P/E ratio of 25.8. 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 and supply chain issues, we are reducing our fair value multiple estimates to 20 times earnings as we believe the company 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

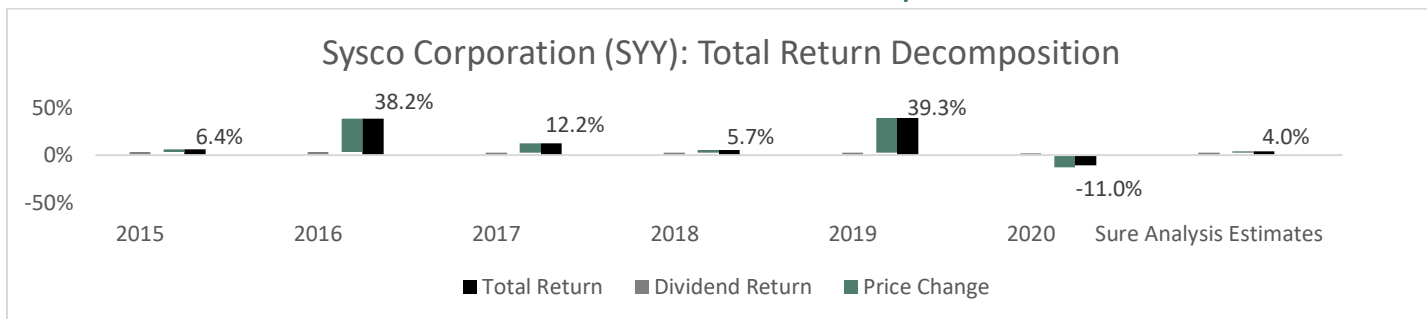
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	55.4%	62.4%	65.3%	64.7%	58.6%	55.6%	44.9%	43.1%	86.6%	130.6%	62%	65%

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 company double-digit returns on invested capital every year, 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 9.7, which is high and concerning. Sysco's stable cash flows should allow them to comfortably service the debt in most environments, but this leverage level limits the company's ability 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 priced at a premium, and Sysco is no exception. Its valuation is modestly higher than its long-term average, and the company 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 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	42,381	44,411	46,517	48,681	50,367	55,371	58,727	60,114	52,893	51,298
Gross Profit	7,779	7,997	8,181	8,552	9,040	10,558	11,085	11,409	9,902	9,357
D&A Exp.	417	510	548	553	663	902	765	764	914	852
Operating Profit	1,891	1,658	1,587	1,229	1,851	2,055	2,314	2,330	750	1,437
Operating Margin	4.5%	3.7%	3.4%	2.5%	3.7%	3.7%	3.9%	3.9%	1.4%	2.8%
Net Profit	1,122	992	932	687	950	1,143	1,431	1,674	215	524
Net Margin	2.6%	2.2%	2.0%	1.4%	1.9%	2.1%	2.4%	2.8%	0.4%	1.0%
Free Cash Flow	620	1,000	970	1,013	1,461	1,546	1,468	1,719	898	1,433
Income Tax	662	555	544	321	483	624	525	332	78	61

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	12,137	12,678	13,141	17,989	16,722	17,757	18,070	17,967	22,628	21,414
Cash & Equivalents	689	412	413	5,130	3,919	870	552	513	6,059	3,007
Acc. Receivable	2,967	3,183	3,399	3,353	3,381	4,012	4,074	4,182	2,894	3,782
Inventories	2,179	2,396	2,602	2,692	2,639	2,996	3,125	3,216	3,095	3,695
Goodwill & Int. Ass.	1,779	2,090	2,128	2,115	2,329	4,954	4,935	4,754	4,513	4,690
Total Liabilities	7,452	7,486	7,874	12,729	13,242	15,375	15,563	15,464	21,470	19,861
Accounts Payable	2,209	2,428	2,831	2,882	2,936	3,971	4,136	4,315	3,447	4,885
Long-Term Debt	3,018	2,889	2,733	7,322	7,435	8,195	8,327	8,163	14,447	11,083
Total Equity	4,685	5,192	5,267	5,260	3,480	2,382	2,507	2,503	1,159	1,553
LTD/E Ratio	0.64	0.56	0.52	1.39	2.14	3.44	3.32	3.26	12.47	7.14

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.5%	8.0%	7.2%	4.4%	5.5%	6.6%	8.0%	9.3%	1.1%	2.4%
Return on Equity	23.9%	20.1%	17.8%	13.0%	21.7%	39.0%	58.5%	66.8%	11.8%	38.7%
ROIC	14.9%	12.6%	11.6%	6.7%	8.1%	10.6%	13.4%	15.6%	1.6%	3.7%
Shares Out.	589.0	593.0	590.0	597.0	577.0	549.0	529.0	523.0	514.0	514.0
Revenue/Share	71.96	74.93	78.81	81.56	87.23	100.94	111.00	114.86	102.90	99.89
FCF/Share	1.05	1.69	1.64	1.70	2.53	2.82	2.77	3.28	1.75	2.79

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

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