



# Archer-Daniels-Midland (ADM)

Updated May 10<sup>th</sup>, 2022 by Felix Martinez

## Key Metrics

|                             |      |  |       |                                  |            |
|-----------------------------|------|--|-------|----------------------------------|------------|
| <b>Current Price:</b>       | \$84 | <b>5 Year CAGR Estimate:</b>               | 9.8%  | <b>Market Cap:</b>               | \$50.5 B   |
| <b>Fair Value Price:</b>    | \$94 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date:</b>         | 05/18/2022 |
| <b>% Fair Value:</b>        | 90%  | <b>5 Year Valuation Multiple Estimate:</b> | 2.2%  | <b>Dividend Payment Date:</b>    | 06/08/2022 |
| <b>Dividend Yield:</b>      | 1.9% | <b>5 Year Price Target</b>                 | \$126 | <b>Years Of Dividend Growth:</b> | 47         |
| <b>Dividend Risk Score:</b> | A    | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | Hold       |

## Overview & Current Events

Archer-Daniels-Midland is the largest publicly traded farmland product company in the United States. The company, founded in 1902, trades with a market capitalization of \$50.5 billion. Archer-Daniels-Midland's businesses include processing cereal grains and oilseeds and agricultural storage and transportation.

Archer-Daniels-Midland reported its first-quarter results for Fiscal Year (FY)2021 on April 26, 2022. The company had another excellent quarter to start the new year. The company reported adjusted earnings per share of \$1.90 the quarter vs. \$1.39 in 1Q21, an increase of 36.7% Year over Year (YoY). Revenues were up by 25.2%, from \$18,893 million in the first quarter of 2021 to \$23,650 million last quarter. Net income increased from \$689 million to \$1,054 million, or a 52.9% growth for the quarter compared to 1Q21. 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 2022. They also expect strong growth in segment operating profit. However, we think the earnings growth will slow down next year as this is a cyclical industry.

Also, on January 25, 2022, ADM's Board of Directors approved an 8.1% dividend increase. The company will now pay out \$0.40 per share per quarter compared to the prior dividend of \$0.37 per share per quarter.

We expect earnings for the entire year of 2022 to be \$6.26 per share for the year; this is an increase of 20.6% compared to FY2021.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$2.25 | \$2.33 | \$3.20 | \$2.55 | \$2.16 | \$2.13 | \$3.50 | \$3.24 | \$3.59 | \$5.19 | <b>\$6.26</b> | <b>\$8.38</b> |
| <b>DPS</b>                | \$0.69 | \$0.76 | \$0.96 | \$1.12 | \$1.20 | \$1.28 | \$1.34 | \$1.40 | \$1.44 | \$1.48 | <b>\$1.60</b> | <b>\$1.85</b> |
| <b>Shares<sup>1</sup></b> | 659.0  | 659.0  | 655.0  | 595.0  | 573.0  | 557.0  | 559.0  | 557.0  | 563.0  | 566.0  | <b>566.0</b>  | <b>556.0</b>  |

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 a growth rate of around 6.0% is feasible for moving forward.

The business is 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.

<sup>1</sup> Shares in Millions

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



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## Valuation Analysis

| Year             | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now         | 2027        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/E</b>  | 13.1 | 17.6 | 13.5 | 15.4 | 18.8 | 20.1 | 14.3 | 17.1 | 14.8 | 13.0 | <b>13.5</b> | <b>15.0</b> |
| <b>Avg. Yld.</b> | 2.3% | 2.8% | 2.1% | 2.4% | 3.0% | 3.0% | 2.9% | 3.1% | 3.3% | 2.2% | <b>1.9%</b> | <b>1.5%</b> |

Archer-Daniels-Midland has been valued at a price to earnings multiple of 15.8 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 relatively undervalued, with a current PE of 13.5 based on 2022 expected earnings of \$6.26. Also, investors get an above-average dividend yield of 1.9% at current prices than the S&P current dividend yield of 1.6%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year          | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022       | 2027       |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------|------------|
| <b>Payout</b> | 30.7% | 32.6% | 30.0% | 43.9% | 55.6% | 60.1% | 38.3% | 43.2% | 40.1% | 28.5% | <b>26%</b> | <b>22%</b> |

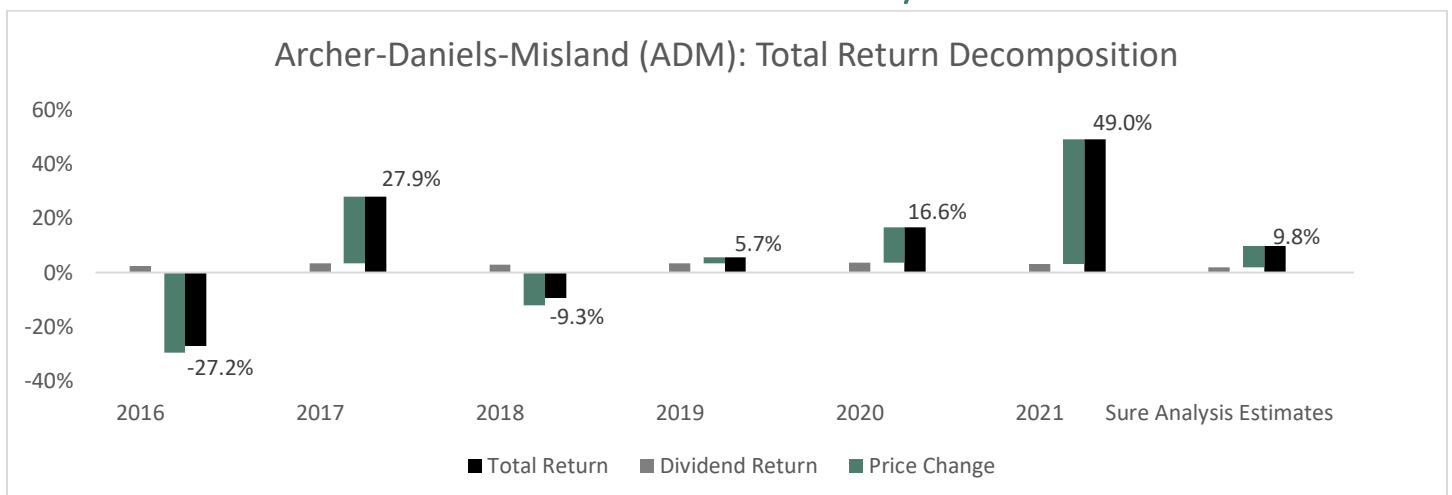
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's earnings-per-share solid growth, the dividend payout ratio declined considerably to 38% in 2018. The dividend payout ratio is not high, at only 26% based on 2022 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 47 consecutive years, and it has a 5-year dividend growth rate of 4.6%. 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 is 0.6. 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% annually. Investors get an above-average dividend yield and an undervalued stock price with a fair price of \$94. The total return outlook is 9.8% annually for the next five years. We recommend that this company is a Hold at the current price because of the modest expected returns.

## Total Return Breakdown by Year



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



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## Income Statement Metrics

| Year                    | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue</b>          | 46,729 | 89,804 | 81,201 | 67,702 | 62,346 | 60,828 | 64,341 | 64,656 | 64,355 | 85,249 |
| <b>Gross Profit</b>     | 1,802  | 3,889  | 4,768  | 3,966  | 3,618  | 3,518  | 4,181  | 4,147  | 4,453  | 5,987  |
| <b>Gross Margin</b>     | 3.9%   | 4.3%   | 5.9%   | 5.9%   | 5.8%   | 5.8%   | 6.5%   | 6.4%   | 6.9%   | 7.0%   |
| <b>SG&amp;A Exp.</b>    | 869    | 1,759  | 1,933  | 1,985  | 1,981  | 1,978  | 2,165  | 2,493  | 2,687  | 2,994  |
| <b>D&amp;A Exp.</b>     | 435    | 909    | 894    | 882    | 900    | 924    | 941    | 993    | 976    | 996    |
| <b>Operating Profit</b> | 933    | 2,130  | 2,835  | 1,981  | 1,637  | 1,540  | 2,016  | 1,654  | 1,766  | 2,993  |
| <b>Op. Margin</b>       | 2.0%   | 2.4%   | 3.5%   | 2.9%   | 2.6%   | 2.5%   | 3.1%   | 2.6%   | 2.7%   | 3.5%   |
| <b>Net Profit</b>       | 692    | 1,342  | 2,248  | 1,849  | 1,279  | 1,595  | 1,810  | 1,379  | 1,772  | 2,709  |
| <b>Net Margin</b>       | 1.5%   | 1.5%   | 2.8%   | 2.7%   | 2.1%   | 2.6%   | 2.8%   | 2.1%   | 2.8%   | 3.2%   |
| <b>Free Cash Flow</b>   | 1,863  | 4,313  | 4,049  | 580    | -7,390 | -7,015 | -5,626 | -6,280 | -3,209 | 5,426  |
| <b>Income Tax</b>       | 303    | 670    | 877    | 438    | 534    | 7      | 245    | 209    | 101    | 578    |

## Balance Sheet Metrics

| Year                          | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Total Assets</b>           | 45,136 | 43,752 | 43,997 | 40,157 | 39,769 | 39,963 | 40,833 | 43,997 | 49,719 | 56,136 |
| <b>Cash &amp; Equivalents</b> | 1,714  | 3,121  | 1,099  | 910    | 619    | 804    | 1,997  | 852    | 666    | 943    |
| <b>Acc. Receivable</b>        | 4,543  | 4,522  | 4,236  | 2,886  | 2,426  | 2,424  | 2,683  | 3,281  | 3,653  | 4,490  |
| <b>Inventories</b>            | 13,836 | 11,441 | 9,374  | 8,243  | 8,831  | 9,173  | 8,813  | 9,170  | 11,713 | 14,481 |
| <b>Goodwill &amp; Int.</b>    | 759    | 561    | 3,392  | 3,688  | 3,703  | 3,918  | 4,041  | 5,476  | 5,585  | 6,747  |
| <b>Total Liabilities</b>      | 26,005 | 23,558 | 24,367 | 22,242 | 22,588 | 21,641 | 21,837 | 24,772 | 29,623 | 33,369 |
| <b>Accounts Payable</b>       | 4,787  | 4,513  | 4,326  | 3,474  | 3,606  | 3,894  | 3,545  | 3,746  | 4,474  | 6,388  |
| <b>Long-Term Debt</b>         | 9,540  | 6,870  | 5,660  | 5,877  | 6,931  | 7,493  | 8,388  | 8,881  | 9,929  | 9,539  |
| <b>Total Equity</b>           | 18,920 | 20,156 | 19,575 | 17,899 | 17,173 | 18,313 | 18,981 | 19,208 | 20,000 | 22,477 |
| <b>LTD/E Ratio</b>            | 0.50   | 0.34   | 0.29   | 0.33   | 0.40   | 0.41   | 0.44   | 0.46   | 0.50   | 0.42   |

## Profitability & Per Share Metrics

| Year                    | 2012  | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   |
|-------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Return on Assets</b> | 1.6%  | 3.0%   | 5.1%   | 4.4%   | 3.2%   | 4.0%   | 4.5%   | 3.3%   | 3.8%   | 5.1%   |
| <b>Return on Equity</b> | 3.8%  | 6.9%   | 11.3%  | 9.9%   | 7.3%   | 9.0%   | 9.7%   | 7.2%   | 9.0%   | 12.8%  |
| <b>ROIC</b>             | 2.4%  | 4.8%   | 8.6%   | 7.5%   | 5.3%   | 6.4%   | 6.8%   | 5.0%   | 6.1%   | 8.7%   |
| <b>Shares Out.</b>      | 659.0 | 659.0  | 655.0  | 595.0  | 573.0  | 557.0  | 559.0  | 557.0  | 563.0  | 566.0  |
| <b>Revenue/Share</b>    | 70.69 | 135.45 | 123.78 | 109.02 | 105.49 | 106.34 | 113.48 | 114.44 | 113.90 | 150.62 |
| <b>FCF/Share</b>        | 2.82  | 6.51   | 6.17   | 0.93   | -12.50 | -12.26 | -9.92  | -11.12 | -5.68  | 9.59   |

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

### Disclaimer

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