



Tyson Foods Inc. (TSN)

Updated May 21st, 2022, by Nikolaos Sismanis

Key Metrics

Current Price:	\$85	5 Year CAGR Estimate:	6.2%	Market Cap:	\$30.8 B
Fair Value Price:	\$90	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	05/31/22
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	06/15/22
Dividend Yield:	2.2%	5 Year Price Target	\$104	Years Of Dividend Growth:	11
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Tyson Foods, founded in 1935, is one of 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 \$36 billion market cap company generated \$47 billion in revenue last year.

On May 9th, 2022, Tyson Foods released Q2 fiscal year 2022 results for the period ending April 2nd, 2022 (Tyson's fiscal year ends the Saturday nearest September 30th). For the quarter, sales came in at \$13.1 billion, a 16% increase compared to Q2 2021. Gains were across the board, with Beef, Pork, Chicken, and Prepared Foods up 23.8%, 10.8%, 14.4%, and 15.9%, respectively. Higher sales volumes drove increased sales in the beef and chicken segments, while higher pricing across all categories also contributed to the top line amid the ongoing inflationary environment and supply chain constraints. Adjusted operating income equaled \$1.16 billion, up 57% from the prior-year period, while adjusted earnings-per-share equaled \$2.29 versus \$1.34 in Q2 2021.

For fiscal 2022, the United States Department of Agriculture (USDA) indicates domestic protein production (beef, pork, chicken, and turkey) should be relatively flat compared to fiscal 2021 levels. Tyson raised its expectation for fiscal 2022, expecting sales between 52 billion to \$54 billion, up from \$49 billion to \$51 billion previously. Based on this outlook and the current profit margin potential, we forecast an adjusted EPS of \$9.00 for the year.

During the quarter, the company repurchased 6.2 million shares for \$523 million.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.90	\$2.26	\$2.92	\$3.21	\$4.53	\$5.31	\$6.16	\$5.46	\$5.78	\$8.28	\$9.00	\$10.43
DPS	\$0.17	\$0.33	\$0.33	\$0.45	\$0.60	\$0.90	\$1.20	\$1.50	\$1.71	\$1.78	\$1.84	\$2.46
Shares¹	359	344	376	369	361	368	366	366	365	365	364	360

During the 2011 through 2021 period, Tyson Foods grew earnings-per-share by over 15% 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 acquisition of the Thai and European Operations of BRF SA. Another consideration is the dependence on large grocers, namely Walmart.

The COVID-19 pandemic certainly impacted the business, but fiscal 2021 results proved to be very strong. Demand has remained; however, the channel by which it is consumed – less foodservice and more retail – has been altered in the short-term. We are forecasting 2022 earnings to fall back modestly to go along with a 3% annual growth rate.

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.7	10.4	12.5	12.8	13.6	11.9	11.6	12.9	12.3	8.6	9.5	10.0
Avg. Yld.	0.9%	1.4%	0.9%	1.1%	1.0%	1.4%	1.8%	2.2%	2.4%	2.5%	2.2%	2.4%

Since 2012 shares of Tyson Foods have traded hands with an average P/E ratio of about 12 times earnings. We have assigned a fair valuation multiple of 10 for now, considering the ongoing rising-rates environment could continue pressuring equities moving forward. That said, a more optimistic multiple wouldn't be unlikely amid Tyson's growth prospects and the general quality of the firm. With shares currently trading at 9.5 times our 2022 earnings expectation, this implies the possibility of a modest valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	9%	15%	11%	14%	13%	17%	19%	27%	30%	21%	20%	24%

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.

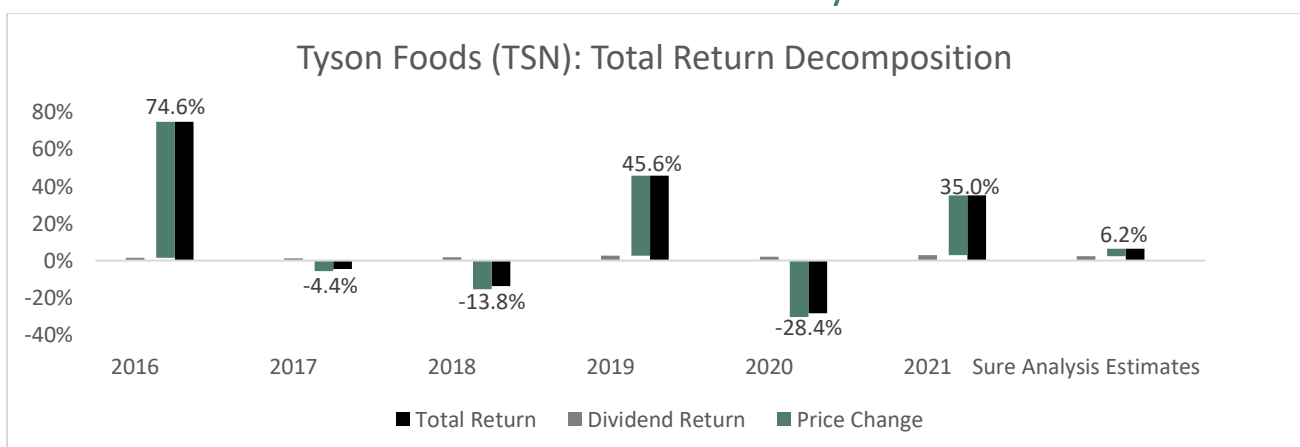
During the last recession, Tyson Foods posted earnings-per-share of \$0.75, \$0.24, \$0.06, and \$2.06, during the 2007 through 2010 period – showing the type of cyclicality that is possible with this company. However, we are encouraged on two fronts. First, earnings did bounce back and now are much 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 \$1.15 billion in cash, \$8.9 billion in current assets and \$35.8 billion in total assets against \$4.6 billion in current liabilities and \$16.65 billion in total liabilities. Long-term debt stood at \$8.3 billion, requiring an estimated \$360 million in interest expense this year.

Final Thoughts & Recommendation

Shares are relatively flat year-to-date. Relative to most equities in the market, Tyson stock has held its ground lately amid its recession-proof business model. With its necessity-type goods being highly inelastic to price increases, the company should fare well during the ongoing inflationary environment. In our view, the main challenge for Tyson Foods will be maintaining production efficiencies in order to combat rising costs and differentiate itself in the face of heavy competition. Total return potential comes in at 6.2% per annum, driven by 3% growth and a 2.2% starting yield. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	33055	34374	37580	41373	36881	38260	40052	42405	43180	47050
Gross Profit	2190	2358	2685	3917	4697	5062	5096	5022	5384	6256
Gross Margin	6.6%	6.9%	7.1%	9.5%	12.7%	13.2%	12.7%	11.8%	12.5%	13.3%
SG&A Exp.	904	983	1255	1748	1864	2141	2064	2195	2376	2130
D&A Exp.	499	519	530	711	705	761	943	1098	1192	1214
Operating Profit	1286	1375	1430	2169	2833	2921	3032	2827	3008	4396
Operating Margin	3.9%	4.0%	3.8%	5.2%	7.7%	7.6%	7.6%	6.7%	7.0%	9.3%
Net Profit	583	778	864	1220	1768	1774	3024	2022	2061	3047
Net Margin	1.8%	2.3%	2.3%	2.9%	4.8%	4.6%	7.6%	4.8%	4.8%	6.5%
Free Cash Flow	497	756	546	1716	2021	1530	1763	1254	2675	2631
Income Tax	351	409	396	697	826	850	-282	396	593	981

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	11896	12177	23956	22969	22373	28066	29109	33097	34460	36310
Cash & Equivalents	1071	1145	438	688	349	318	270	484	1420	2507
Accounts Receivable	1378	1497	1684	1620	1542	1675	1723	2173	1952	2400
Inventories	2809	2817	3274	2878	2732	3239	3513	4108	3859	4382
Goodwill & Int. Ass.	2020	2040	11982	11835	11753	15567	16498	17881	17670	17070
Total Liabilities	5854	5944	15052	13263	12749	17507	16298	18871	19070	18460
Accounts Payable	1372	1359	1806	1662	1511	1698	1694	1926	1876	2225
Long-Term Debt	2432	2408	8178	6690	6279	10203	9873	11932	11340	9348
Shareholder's Equity	6012	6201	8890	9691	9608	10541	12803	14082	15250	17720
LTD/E Ratio	0.40	0.39	0.92	0.69	0.65	0.97	0.77	0.85	0.74	0.53

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.1%	6.5%	4.8%	5.2%	7.8%	7.0%	10.6%	6.5%	6.1%	8.6%
Return on Equity	10.0%	12.7%	11.5%	13.1%	18.3%	17.6%	25.9%	15.0%	14.1%	18.5%
ROIC	7.1%	9.1%	6.7%	7.3%	10.9%	9.7%	13.9%	8.3%	7.8%	11.3%
Shares Out.	370.00	367.00	364.00	413.00	390.00	370.00	369.00	366.00	365.00	365
Revenue/Share	89.34	93.66	103.24	100.18	94.57	103.41	108.54	115.86	118.32	128.90
FCF/Share	1.34	2.06	1.50	4.16	5.18	4.14	4.78	3.43	7.33	7.21

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

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