



Hormel Foods Corporation (HRL)

Updated September 7th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	5.2%	Market Cap:	\$25 B
Fair Value Price:	\$41	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	10/08/22 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date:	11/15/22
Dividend Yield:	2.2%	5 Year Price Target	\$54	Years Of Dividend Growth:	56
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Hormel Foods was founded in 1891 in Minnesota. Since that time, the company has grown into a \$25 billion market capitalization juggernaut in the food products industry with about \$12.5 billion in annual revenue. Hormel has kept with its core competency as a processor of meat products for well over a hundred years but has also grown into other business lines through acquisitions. The company sells its products in 80 countries worldwide, and its brands include Skippy, SPAM, Applegate, Justin's, and more than 30 others. In addition, Hormel is a member of the Dividend Kings, having increased its dividend for 56 consecutive years.

Hormel reported third quarter earnings on September 1st, 2022, and results were mixed. Earnings-per-share came to 40 cents, which was one penny light against expectations. Revenue was up 6% year-over-year to \$3.03 billion, which beat estimates by \$30 million.

Hormel noted organic sales increased 3% during the quarter as it saw significant challenges from inflationary pressures, consistent supply chain disruptions both getting raw materials and shipping out finished goods, limited supplies of turkey, and temporary plant shutdowns.

Operating margin was up nicely, rising from 7.2% of sales a year ago to 9.6% in this year's Q3.

The company noted it is focusing on future acquisitions, as well as effectively integrating and leveraging recent purchases, such as Planters. In addition, it continues to review ways to improve results at Jennie-O, which remains the company's weakest segment.

Hormel cut guidance following Q3 results, but our estimate of \$1.85 in earnings-per-share for this year remains within the window provided, so we are reiterating our expectation there.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.93	\$0.98	\$1.12	\$1.32	\$1.64	\$1.57	\$1.86	\$1.74	\$1.66	\$1.73	\$1.85	\$2.48
DPS	\$0.30	\$0.34	\$0.40	\$0.50	\$0.58	\$0.68	\$0.75	\$0.84	\$0.93	\$0.98	\$1.04	\$1.33
Shares²	528	526	527	527	528	528	529	544	548	542	542	542

Hormel's earnings-per-share has grown nicely throughout the past decade, only dipping year-over-year three times in this span. Relatively consistent results have come from a steady stream of acquisitions and a bit of organic growth. This has afforded Hormel the ability to consistently raise its dividend as well.

We are forecasting forward earnings growth of 6% annually as Hormel could grow more slowly than it has in the past. We see sales growth as the primary driver of earnings-per-share expansion moving forward as recent results continue to show that margins and volumes can be unpredictable for this business. Hormel will likely continue to buy growth because its legacy businesses are not currently producing it outside of an extraordinary circumstance early in 2020. This strategy has certainly worked in the past, and Planters is yet another example. However, margins are very much in focus for the balance of 2022 on cost inflation, but we note Q3 results were excellent on that front.

¹ Estimated date

² Share count 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	15.6	19.8	21.3	21.6	23.4	21.8	19.3	24.2	28.4	26.9	25.4	22.0
Avg. Yld.	2.1%	1.8%	1.7%	1.8%	1.5%	2.0%	2.1%	2.0%	2.0%	2.1%	2.2%	2.4%

Hormel's price-to-earnings ratio has been volatile in the last decade, sinking as low as 13 in 2009 before rebounding to 23.4 in 2016. It sits at 25.4 now and we believe it could move lower over time towards our fair value estimate of 22 times earnings. That works out to a modest headwind to total returns over the next five years as the stock remains expensive. Given Hormel's struggles with volume and margins, we believe investors are much more likely to reduce the earnings multiple than expand it further. We are forecasting a slightly higher yield five years from now as the stock's valuation could move lower.

Hormel boosted its dividend once more at the beginning of 2022, this time adding just over 6% to its payout, marking its 56th consecutive year of dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	33%	34%	35%	33%	41%	40%	48%	56%	57%	56%	54%

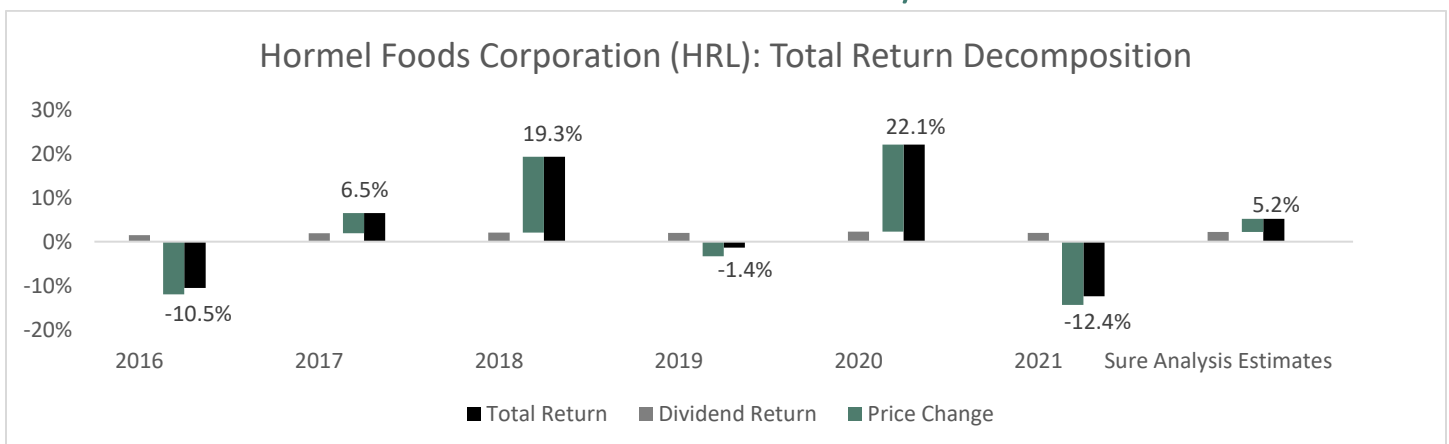
Hormel's payout ratio is just over half of earnings, and we expect that it will remain this way for the foreseeable future. Management is certainly committed to the dividend, but it wants to acquire growth as well, which uses cash.

Hormel's main competitive advantage is its ~40 products that are either #1 or #2 in their category. Hormel has brands that are proven, and that leadership position is difficult for competitors to supplant. In addition, Hormel has a global network of distributors that few food companies can rival. Hormel's earnings-per-share actually grew during the Great Recession while most of the world was in rather dire straits, a testament to the company's defensive nature.

Final Thoughts & Recommendation

Hormel looks overvalued today in our view, which is consistent with our last update. The company is in a tough spot as it tries to grow without sacrificing margins given supply chain and input cost inflation pressures. With the valuation still elevated and margins struggling, we forecast just 5.2% total annual returns for Hormel. These could accrue from 6% growth, with the 2.2% yield and 2.8% valuation headwind roughly offsetting each other. We're reiterating Hormel at 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	8231	8752	9316	9264	9523	9168	9546	9497	9,608	11,386
Gross Profit	1332	1413	1565	1809	2158	1997	1979	1885	1,826	1,928
Gross Margin	16.2%	16.1%	16.8%	19.5%	22.7%	21.8%	20.7%	19.8%	19.0%	16.9%
SG&A Exp.	606	627	651	744	872	759	841	728	761	853
D&A Exp.	119	125	130	133	132	131	162	165	206	228
Operating Profit	726	785	914	1065	1286	1237	1138	1157	1,065	1,075
Operating Margin	8.8%	9.0%	9.8%	11.5%	13.5%	13.5%	11.9%	12.2%	11.1%	9.4%
Net Profit	500	526	603	686	890	847	1012	979	908	909
Net Margin	6.1%	6.0%	6.5%	7.4%	9.3%	9.2%	10.6%	10.3%	9.5%	8.0%
Free Cash Flow	385	531	588	848	784	813	852	629	761	770
Income Tax	253	268	316	370	427	432	169	231	206	217

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4564	4916	5456	6140	6370	6976	8142	8109	9,908	12,696
Cash & Equivalents	682	434	334	347	415	444	459	673	1,714	614
Accounts Receivable	507	552	610	606	591	618	600	574	702	896
Inventories	951	968	1055	993	986	921	964	1042	1,073	1,369
Goodwill & Int. Ass.	754	1313	1781	2527	2738	3147	3921	3516	3,689	6,751
Total Liabilities	1739	1599	1844	2138	1919	2036	2537	2183	3,478	5,718
Accounts Payable	386	387	484	495	482	553	619	590	645	793
Long-Term Debt	250	250	250	435	250	250	625	250	1,304	3,324
Shareholder's Equity	2819	3311	3606	3998	4448	4936	5601	5921	6,426	6,973
LTD/E Ratio	0.09	0.08	0.07	0.11	0.06	0.05	0.11	0.04	0.20	0.48

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.4%	11.1%	11.6%	11.8%	14.2%	12.7%	13.4%	12.0%	10.1%	8.0%
Return on Equity	18.3%	17.2%	17.4%	18.0%	21.1%	18.0%	19.2%	17.0%	14.7%	13.6%
ROIC	16.7%	15.8%	16.2%	16.5%	19.5%	17.1%	17.7%	15.8%	13.1%	10.1%
Shares Out.	528	526	527	527	528	528	529	544	548	542
Revenue/Share	15.30	16.19	17.24	17.12	17.56	17.00	17.55	17.42	17.58	20.79
FCF/Share	0.72	0.98	1.09	1.57	1.45	1.51	1.57	1.15	1.39	1.41

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

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