



Albertsons Companies(ACI)

Updated October 30th, 2022, by Tiago Dias

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	14.6%	Market Cap:	\$11.6 B
Fair Value Price:	\$32	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/28/2022
% Fair Value:	63%	5 Year Valuation Multiple Estimate:	9.7%	Dividend Payment Date:	11/14/2022
Dividend Yield:	2.4 %	5 Year Price Target	\$37	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Albertsons (ACI) is one of the largest food and drug retailers in the United States. With \$70 billion in sales, a market cap of \$11.6 billion and a history dating back to the 1860's, Albertsons went public in 2020 and has paid a quarterly dividend ever since.

The company reported their Q2 2022 results on October 18th and announced a new quarterly dividend of \$0.12 per share. With Q2 2022 earnings of \$0.72 per share and a forward annualized dividend of \$0.48, their commitments to shareholders are well covered by their ongoing business.

The big news during the quarter was the announcement of a merger agreement between ACI and Kroger with ACI shareholders expected to receive a total consideration of around \$34.10 per share, split between a \$6.85 cash dividend to be paid on November 7th, with an ex-dividend date of October 21st, and a spin-off of part of the business. This merger is currently under regulatory review, and may not go through, hence the numbers detailed in this report do not reflect its effects.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	--	--	--	--	--	--	\$0.23	\$0.80	\$3.24	\$2.70	\$2.65	\$3.07
DPS	--	--	--	--	--	--	--	--	\$0.20	\$0.44	\$0.48	\$0.56
Shares	--	--	--	--	--	--	575	579	465	470	583.0	583.0

With only four years of historical data available to us, two of which were as a private company, it's very difficult to make any reliable estimate for future growth. Therefore, any estimates we make must be based around the industry in which the company operates in, namely the food and drug retail industry.

This is a mature, well established, and stable industry, which means growth rates will be low and primarily in-line with GDP growth. The fact that ACI is one of the largest players in this industry, and that retailing has notoriously low margins, means that earnings-per-share growth will likely be small. We forecast 3% annual earnings-per-share growth along with dividend growth in-line with earnings-per-share growth.

While sales figures are likely to remain steady, the low margins inherent to the food and drug retailing business means that earnings can fluctuate wildly on a yearly basis. That said, on average we would expect 2027 EPS to be around \$3.07 per share, and a dividend of around \$0.56. This is a conservative estimate considering the low but stable growth of food and drug retailing, as well as the unique cashflow advantages that retail enjoys.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	--	--	--	--	--	--	--	--	4.7	9.0	7.5	12.0
Avg. Yld.	--	--	--	--	--	--	--	--	1.3%	1.7%	2.4%	1.5%

Albertsons went public during 2020, at a time when there was great uncertainty in the market, particularly for physical retail businesses who were undergoing lockdowns and other restrictions. While Albertsons managed to avoid the bulk of

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the restrictions, given the essential nature of their business, it's understandable that investors were weary to invest in them and rewarded them with a comparatively low PE ratio. As the economy reopened the company appears to have had its valuation re-rated by the market and is now standing at around a P/E ratio of 7.5.

This P/E ratio may seem like an undervaluation compared to some of its competitors like Walmart, Target, or Ahold Delhaize, but it's well in-line with the industry's historical average PE prior to the past couple of years. As a result of this, and in the absence of any catalyst that would significantly grow this mature and established business, we would expect that no significant further re-rating will occur, and that the 2027 PE will remain around 12.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	--	--	--	--	--	--	--	--	6%	15%	18%	18%

The company is a low margin business in a highly competitive industry without any significant competitive advantage against other similar businesses. Retail is a harsh industry to compete in, and there are three primary factors that determine success, those are: location, price, and product availability.

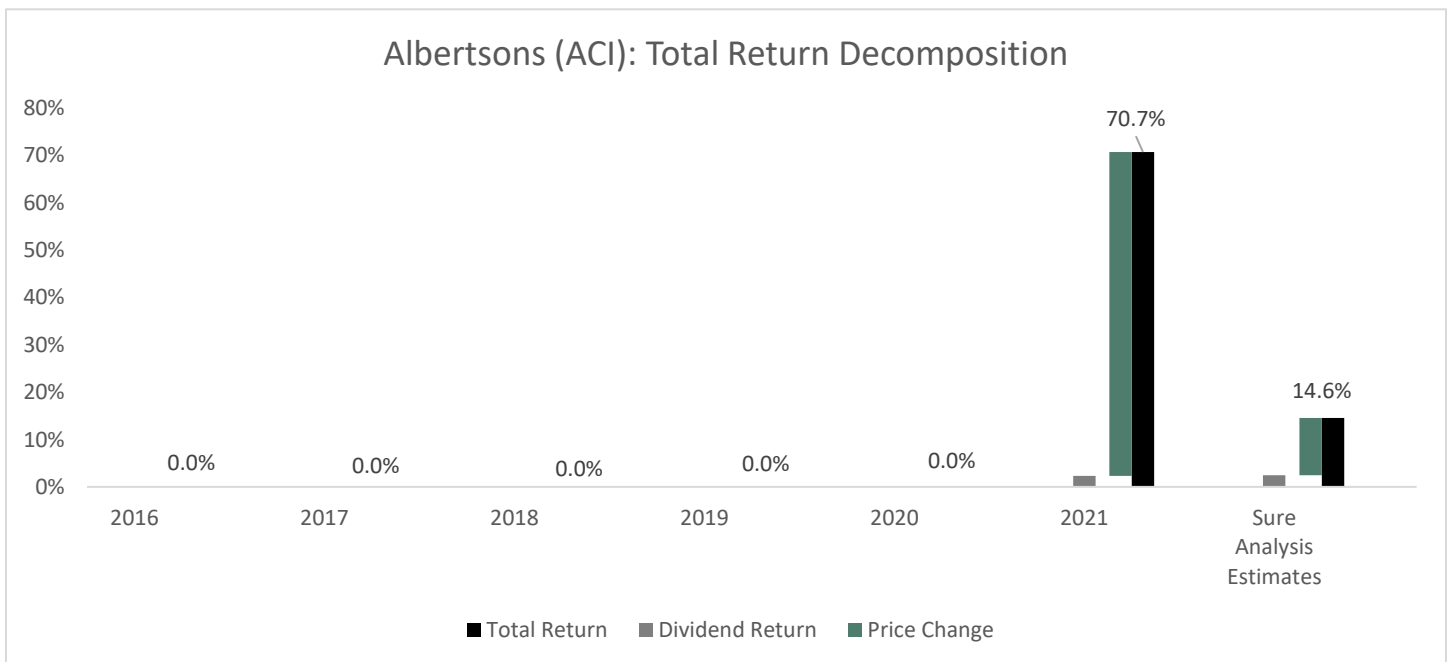
Albertsons is a large company with over 3000 stores. This allows them to compete on location, and with \$70 billion in revenue it's clear that they have the scale and product availability to compete with the other large U.S. retailers. These efficiencies of scale make the business remarkably stable, and able to support their ongoing dividend.

Final Thoughts & Recommendation

Albertsons five year estimate total return comes in at 14.6% per year, driven by 3% earnings-per-share growth, a 2.4% dividend yield, and a major revision in valuation multiple.

Despite an outstandingly high expected total return, the current uncertainty regarding regulatory approval of the merger agreement leads us to give the company 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	3,712	20,055	27,199	58,734	59,678	59,925	60,535	62,455	69,690	71,887
Gross Profit	938	5,399	7,503	16,062	16,641	16,361	16,895	17,594	20,415	20,722
Gross Margin	25.3%	26.9%	27.6%	27.3%	27.9%	27.3%	27.9%	28.2%	29.3%	28.8%
SG&A Exp.	899	5,874	8,152	15,660	16,033	16,209	16,272	16,642	18,836	18,301
D&A Exp.	17	676	718	1,614	1,805	1,898	1,739	2,262	2,118	2,305
Operating Profit	39	(475)	(649)	402	608	152	622	952	1,579	2,422
Op. Margin	1.0%	-2.4%	-2.4%	0.7%	1.0%	0.3%	1.0%	1.5%	2.3%	3.4%
Net Profit	79	1,733	(1,225)	(502)	(373)	46	131	466	850	1,620
Net Margin	2.1%	8.6%	-4.5%	-0.9%	-0.6%	0.1%	0.2%	0.7%	1.2%	2.3%
Free Cash Flow	4	(79)	(502)	(58)	399	(528)	325	429	2,272	1,907
Income Tax	2	(573)	(153)	(40)	(90)	(964)	(79)	133	279	480

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	9,359	25,678	23,770	23,755	21,812	20,777	24,735	26,598	28,123
Cash & Equivalents	---	307	1,126	580	1,219	670	926	471	1,717	2,902
Acc. Receivable	---	---	---	---	---	615	586	525	551	561
Inventories	---	1,840	4,157	4,422	4,464	4,421	4,333	4,353	4,301	4,501
Goodwill & Int.	---	1,504	5,249	5,014	4,666	4,326	4,018	3,271	3,292	3,486
Total Liabilities	---	7,599	23,510	22,157	22,384	20,414	19,326	22,457	25,274	25,098
Accounts Payable	---	1,064	2,764	2,780	3,035	2,833	2,919	2,891	3,487	4,237
Long-Term Debt	---	3,694	12,569	12,226	12,338	11,876	10,586	8,048	7,701	7,386
Total Equity	---	1,760	2,169	1,613	1,371	1,398	1,451	2,278	1,324	3,025
LTD/E Ratio	---	2.10	5.80	7.58	9.00	8.49	7.30	3.53	5.82	2.44

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	-7.0%	-2.0%	-1.6%	0.2%	0.6%	2.0%	3.3%	5.9%
Return on Equity	---	---	-62.4%	-26.6%	-25.0%	3.3%	9.2%	25.0%	47.2%	74.5%
ROIC	---	---	-12.1%	-3.5%	-2.7%	0.3%	1.0%	4.2%	8.8%	16.7%
Shares Out.	--	--	--	--	--	--	575	579	465	470
Revenue/Share	6.36	34.36	46.60	100.62	102.24	102.66	104.24	107.63	120.55	151.25
FCF/Share	0.01	(0.14)	(0.86)	(0.10)	0.68	(0.90)	0.56	0.74	3.93	4.01

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

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