Bunge Limited (BG)

Updated October 30th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	$98	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$13.9 B
Fair Value Price:	$135	**5 Year Growth Estimate:**	-2.2%	**Ex-Dividend Date:**	11/17/2022
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.6%	**Dividend Payment Date:**	12/02/2022
Dividend Yield:	2.3%	**5 Year Price Target**	$121	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Bunge Limited is one of the largest agribusiness and food companies globally, with integrated operations that stretch from farmer to consumer. The company buys, sells, stores, transports, and processes oilseeds and grains to make protein meals for animal feed and edible oil products for commercial customers. Bunge also produces sugar and ethanol from sugarcane, mills wheat and corn, and sells fertilizers. BG currently has a market capitalization of $12.9 billion.

On October 26th, 2022, the company announced Q3 2022 results, reporting quarterly earnings-per-share of $3.45 on an adjusted basis, beating the market estimates by $0.90. Bunge reported revenues of $16.8 billion, up 18.7% year-over-year from $14.1 billion in Q3 2021.

The company's agribusiness continues to do well, and the management expects higher full-year results than the previous outlook for the segment. The strong results in the processing will offset the lower expected performance in merchandising, as per the management. CEO Greg Heckman mentioned in the earnings call that BG continues to invest in its core oilseed business, and the management remains confident in the company's ability to execute its plans and create value for stakeholders.

The management also provided a revised outlook for the full-year 2022 and now expects a full-year EPS of at least $13.50, up from previous guidance of $11.50 to $12.00. In addition, BG Bunge has remained resilient in the face of broader equity sell-off in the market and is up 3.25% year-to-date compared to the S&P 500's decline of 20.3%. The company's strong balance sheet and liquidity position provides it with a competitive advantage in adverse market conditions. Even though the global supply chain bottlenecks persist, BG has profited from the rise in crop prices since a growing global population has raised the need for more food-grade oils and well-fed livestock. At first, pandemic lockdowns and, subsequently, the Russia-Ukraine war have caused food prices to rise.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$4.62	$5.29	$2.96	$4.84	$5.07	$1.51	$1.57	$1.75	$7.71	$13.64	***$13.50***	***$12.06***
DPS	$1.04	$1.14	$1.28	$1.44	$1.60	$1.76	$1.92	$2.00	$2.00	$2.05	***$2.30***	***$3.14***
Shares[1]	146.4	147.8	145.7	142.5	139.5	140.7	141.1	141.8	139.8	141.1	***141.0***	***138.5***

Bunge Limited has grown its EPS by a CAGR of 12.8% over the past nine years, well below its 5-year CAGR of 21.9%. Indeed, the company has experienced significant growth in EPS in the last two years, with an EPS increasing materially in 2020 and 2021. However, as we move closer to the end of the cycle, the company may face earnings normalization with slower growth in the medium term. Nevertheless, BG now has an increasing opportunity to expand its revenue. For instance, as the world advances toward sustainability, the growth in renewable diesel, produced from crop oils, is currently a modest portion of Bunge's business but may become big in the future.

We are raising our EPS estimate to $13.50, matching the management's higher-end guidance. Still, we maintain our forecast with an EPS normalization in the coming years with a negative growth of 2.2% between 2022 to 2027, leading to our estimated EPS of $12.06 by 2027. Additionally, we have assumed a 6.5% dividend growth resulting in a dividend

[1] In millions.

payment of $3.14 in 2027. Nevertheless, higher crop prices are not the only factor driving growth for Bunge. The world has been dealing with a significant La Nina-driven drought in South America and a global fertilizer shortage, boding well for crops that require less fertilizer-intensive soybeans.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	14.2	14.3	27.5	16.6	12.1	48.8	43.7	31.0	6.2	6.0	***7.3***	***10.0***
Avg. Yld.	1.6%	1.5%	1.7%	1.7%	1.9%	2.4%	2.8%	3.0%	2.9%	2.8%	***2.3%***	***2.6%***

Due to the material rise in EPS since 2020, the market has assigned a much lower P/E multiple, which is significantly lower than its 10-year and 5-year P/E ratio of 22.0 and 27.1, respectively. As a result, we believe the company could trade at a P/E ratio of around 10.0 by 2027, implying a valuation tailwind. Finally, we expect the company to be consistent with its historical dividend payout policy, resulting in a stable dividend yield of 2.6% by 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	22%	43%	30%	32%	117%	122%	114%	26%	15%	***17%***	***26%***

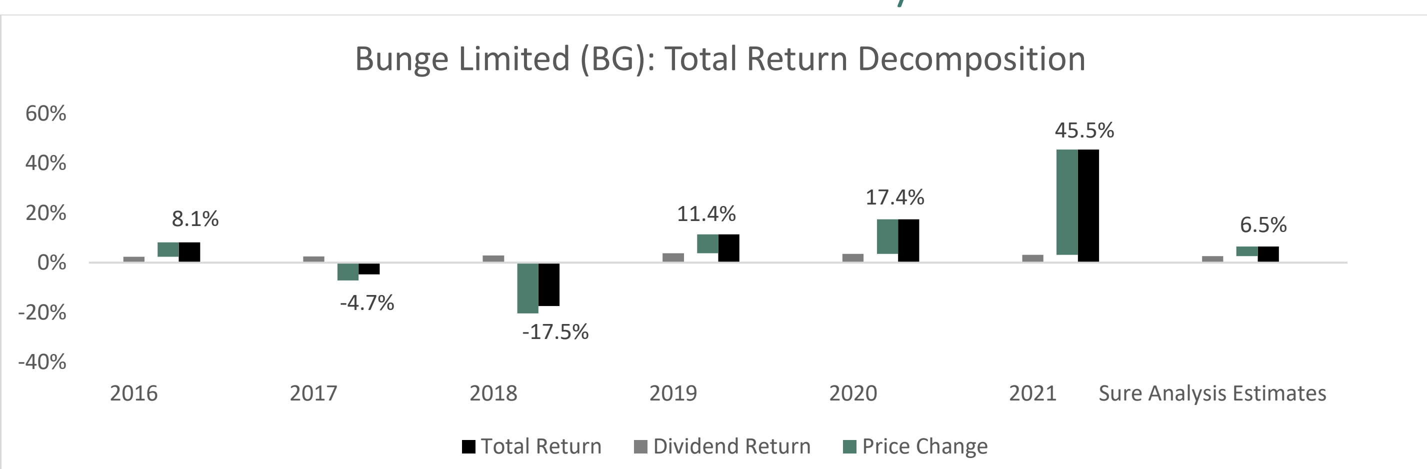
Bunge's CEO Gregory Heckman, who took over in 2019, has been instrumental in introducing structural changes to harness the global scale of its business, increasing the earnings power of the company and reducing the level of debt on the balance sheet. The company has been very disciplined at paying out dividends and is a great capital allocator.

The company ended 2021 with $902 million in cash and equivalents, nearly triple 2019 levels. The company faces risks from the volatile nature of commodity prices. The markets for the products of the company are characterized by high competition and subject to product substitution. The management noted that competition faced by the company is principally based on price, quality, product and service offerings, and geographic location.

Final Thoughts & Recommendation

It is reasonable to expect the company to pass on the cost to its customers efficiently, offering Bunge inflation resistance in the current environment. Undoubtedly, Bunge is a cyclical stock, and we believe that prices are near their peak. However, Bunge earns a hold rating premised upon the 6.5% annualized total return expectation derived from the forecasted earnings-per-share decline of 2.2%, the 2.3% dividend yield, and a potential valuation tailwind.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	60,991	61,347	57,161	43,455	42,679	45,794	45,743	41,140	41,404	59,152
Gross Profit	2,573	2,760	2,621	2,693	2,410	1,765	2,266	542	2,785	3,363
Gross Margin	4.2%	4.5%	4.6%	6.2%	5.6%	3.9%	5.0%	1.3%	6.7%	5.7%
SG&A Exp.	1,563	1,559	1,691	1,435	1,284	1,437	1,423	1,351	1,358	1,234
Operating Profit	1,010	1,201	930	1,258	1,126	328	843	-809-	1,427	2,129
Op. Margin	1.7%	2.0%	1.6%	2.9%	2.6%	0.7%	1.8%	-2.0%	3.4%	3.6%
Net Profit	64	306	515	791	745	160	267	-1,280	1,145	2,078
Net Margin	0.1%	0.5%	0.9%	1.8%	1.7%	0.3%	0.6%	-3.1%	2.8%	3.5%
Free Cash Flow	-1,552	1,183	560	-39	-338	-2,637	-1,757	-1,332	-3,901	-3,293
Income Tax	-6	904	249	296	220	56	179	86	248	398

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	27,280	26,781	21,432	17,914	19,188	18,871	19,425	18,317	23,655	23,819
Cash & Equivalents	569	742	362	411	934	601	389	320	352	902
Acc. Receivable	2,471	2,144	1,840	1,607	1,676	1,501	1,637	1,705	1,717	2,112
Inventories	6,590	5,796	5,554	4,466	4,773	5,074	5,871	5,038	7,172	8,431
Goodwill & Int.	646	718	605	744	709	838	1,424	1,194	1,115	915
Total Liabilities	16,025	16,693	12,742	11,262	11,845	11,514	13,047	12,287	17,450	15,994
Accounts Payable	3,319	3,522	3,248	2,675	3,485	3,395	3,501	2,842	2,636	4,250
Long-Term Debt	8,897	9,114	5,200	4,768	4,792	4,794	5,372	4,994	7,288	5,964
Total Equity	10,172	9,167	7,756	5,751	6,454	6,458	5,483	5,223	5,379	6,979
LTD/E Ratio	0.82	0.92	0.62	0.74	0.67	0.67	0.87	0.84	1.20	0.78

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.2%	1.1%	2.1%	4.0%	4.0%	0.8%	1.4%	-6.8%	5.5%	8.8%
Return on Equity	0.6%	3.2%	6.1%	11.7%	12.2%	2.5%	4.5%	-23.9%	21.6%	33.6%
ROIC	0.3%	1.6%	3.1%	6.3%	6.3%	1.3%	2.2%	-11.2%	9.3%	15.2%
Shares Out.	146.4	147.8	145.7	142.5	139.5	140.7	141.1	141.8	139.8	141.1
Revenue/Share	414.5	413.79	388.24	285.44	287.93	324.17	322.81	290.76	276.60	388.22
FCF/Share	-10.6	7.98	3.80	-0.26	-2.28	-18.67	-12.40	-9.41	-26.06	-21.61

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