



Archer-Daniels-Midland (ADM)

Updated November 1st, 2022 by Felix Martinez

Key Metrics

Current Price:	\$98	5 Year CAGR Estimate:	7.9%	Market Cap:	\$52.12 B
Fair Value Price:	\$105	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/16/2022 ¹
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Dividend Payment Date:	12/08/2022
Dividend Yield:	1.7%	5 Year Price Target	\$134	Years Of Dividend Growth:	47
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 \$52.12 billion. Archer-Daniels-Midland's businesses include processing cereal grains, oilseeds, and agricultural storage and transportation.

Archer-Daniels-Midland reported its third-quarter results for Fiscal Year (FY)2022 on October 25th, 2022. The company had another excellent quarter and for the first nine months of the year. The company reported adjusted earnings per share of \$1.86 the quarter vs. \$0.97 in 3Q21, an increase of 91.8% Year over Year (YoY). Revenues were up by 21.4%, from \$20,340 million in the third quarter of 2021 to \$24,683 million. Net income increased from \$526 million to \$1,031 million, or a 96% growth for the quarter compared to 3Q21. For the first nine months of the year, revenues are up 21.7% compared to the first nine months of 2021. Net income is also up for the first nine months year-over-year, by 72.3%. Overall, earnings per share are up 72.6% for the year's first nine months.

The management team is excited about its future outlook as it expects the third quarter to be another strong quarter, and the positive momentum will continue through 2023. 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.

We expect earnings for the entire year of 2022 to be \$7.49 per share, an increase of 44.3% compared to FY2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.25	\$2.33	\$3.20	\$2.55	\$2.16	\$2.13	\$3.50	\$3.24	\$3.59	\$5.19	\$7.49	\$9.56
DPS	\$0.69	\$0.76	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.44	\$1.48	\$1.60	\$1.85
Shares²	659.0	659.0	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	566.0	556.0

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 difficulty 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 5.0% 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.

¹ Ex-Dividend and Dividend Payment Dates are estimates.

² 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
Avg. P/E	13.1	17.6	13.5	15.4	18.8	20.1	14.3	17.1	14.8	13.0	13.0	14.0
Avg. Yld.	2.3%	2.8%	2.1%	2.4%	3.0%	3.0%	2.9%	3.1%	3.3%	2.2%	1.7%	1.4%

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 13.0 based on 2022 expected earnings of \$7.49. Also, investors get an above-average dividend yield of 1.7% at current prices than the S&P current dividend yield of 1.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30.7%	32.6%	30.0%	43.9%	55.6%	60.1%	38.3%	43.2%	40.1%	28.5%	21%	19%

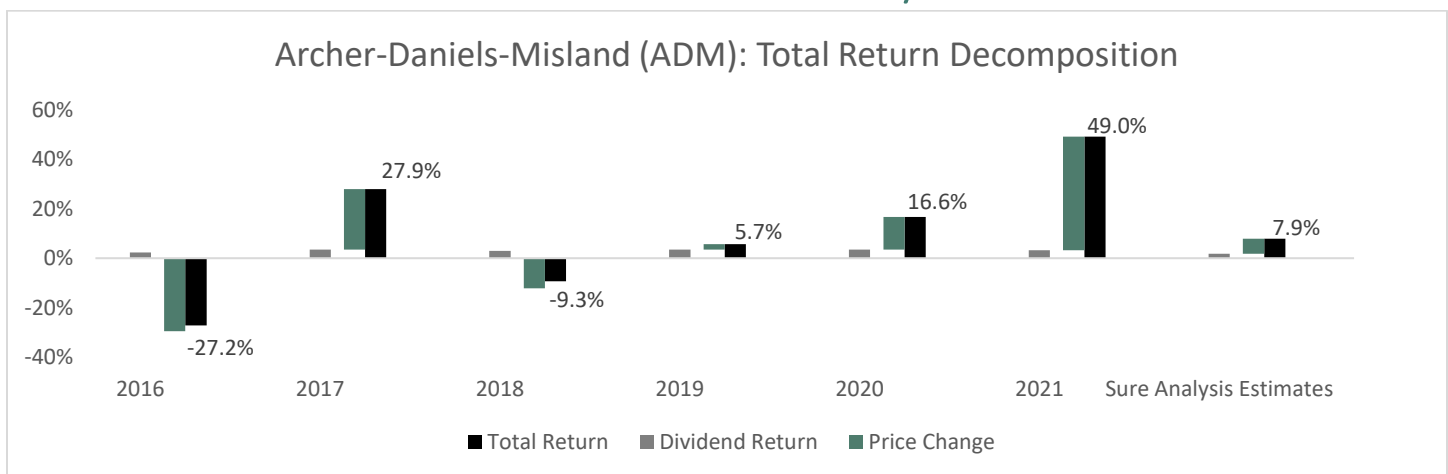
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's earnings-per-share solid growth, the dividend payout ratio declined considerably to 38% in 2018. The dividend payout ratio is not 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 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 5.0% annually. Investors get an above-average dividend yield and an undervalued stock price with a fair price of \$105. The total return outlook is 7.9% 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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Income Statement Metrics

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

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	45,136	43,752	43,997	40,157	39,769	39,963	40,833	43,997	49,719	56,136
Cash & Equivalents	1,714	3,121	1,099	910	619	804	1,997	852	666	943
Acc. Receivable	4,543	4,522	4,236	2,886	2,426	2,424	2,683	3,281	3,653	4,490
Inventories	13,836	11,441	9,374	8,243	8,831	9,173	8,813	9,170	11,713	14,481
Goodwill & Int.	759	561	3,392	3,688	3,703	3,918	4,041	5,476	5,585	6,747
Total Liabilities	26,005	23,558	24,367	22,242	22,588	21,641	21,837	24,772	29,623	33,369
Accounts Payable	4,787	4,513	4,326	3,474	3,606	3,894	3,545	3,746	4,474	6,388
Long-Term Debt	9,540	6,870	5,660	5,877	6,931	7,493	8,388	8,881	9,929	9,539
Total Equity	18,920	20,156	19,575	17,899	17,173	18,313	18,981	19,208	20,000	22,477
LTD/E Ratio	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
Return on Assets	1.6%	3.0%	5.1%	4.4%	3.2%	4.0%	4.5%	3.3%	3.8%	5.1%
Return on Equity	3.8%	6.9%	11.3%	9.9%	7.3%	9.0%	9.7%	7.2%	9.0%	12.8%
ROIC	2.4%	4.8%	8.6%	7.5%	5.3%	6.4%	6.8%	5.0%	6.1%	8.7%
Shares Out.	659.0	659.0	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0
Revenue/Share	70.69	135.45	123.78	109.02	105.49	106.34	113.48	114.44	113.90	150.62
FCF/Share	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.

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