



# The Andersons Inc. (ANDE)

Updated November 2<sup>nd</sup>, 2022, by Patrick Neuwirth

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	14.7%	<b>Market Cap:</b>	\$1.2 B
<b>Fair Value Price:</b>	\$54	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	12/29/22
<b>% Fair Value:</b>	65%	<b>5 Year Valuation Multiple Estimate:</b>	9.0%	<b>Dividend Payment Date<sup>1</sup>:</b>	01/20/23
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$66	<b>Years Of Dividend Growth:</b>	26
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

The Andersons, Inc. (ANDE) is an agriculture company that conducts business in North America. It operates through the following segments: Trade, Renewables, and Plant Nutrient. The Trade segment includes commodity merchandising and the operation of terminal grain elevator facilities. The trade segment contributed over 70% of the company's revenue in 2021. The Renewables segment produces, purchases, and sells ethanol and co-products. The Plant Nutrient segment manufactures, and distributes agricultural inputs, primary nutrients, and specialty fertilizers, to dealers and farmers, along with turf care and corncob-based products. The \$1.2 billion company was founded in 1947 and has about 2,500 employees.

On November 1<sup>st</sup>, 2022, The Andersons released its third quarter 2022 results for the period ending September 30<sup>th</sup>, 2022. For the quarter the company reported revenue of \$4.22 billion, an increase of 40% versus year over year, and adjusted earnings per diluted share of \$0.50, up 22% versus the third quarter of 2021. Plant Nutrient and Renewables had strong third quarter results and the Trade Group's result improved significantly. Trade Group reported pre-tax income of \$40.7 million compared to \$27.6 million in the previous quarter. The Renewables segment also performed well in the quarter, despite declining ethanol crush margins and planned maintenance shutdowns. The Plant Nutrient segment continued to see high margins, however, there were some write-downs in lawn products inventory.

The Andersons has a modest growth ambition for the coming years. Management presented a "strategy for growth" plan with an adjusted EBITDA between \$375 - \$400 million in 2025.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.82	\$3.18	\$3.84	\$2.01	\$0.41	\$3.12	\$1.46	\$0.55	\$0.23	\$3.14	<b>\$3.60</b>	<b>\$4.38</b>
<b>DPS</b>	\$0.40	\$0.43	\$0.44	\$0.58	\$0.63	\$0.65	\$0.67	\$0.69	\$0.70	\$0.71	<b>\$0.72</b>	<b>\$0.88</b>
<b>Shares<sup>2</sup></b>	27	28	29	28	28	28	28	33	33	34	<b>34</b>	<b>35</b>

The Andersons' long-term earnings growth track record has been volatile due to its industry (commodity trading) and due to the COVID-19 impact. Over the last five years, the average EPS growth rate is 2.9%.

We expect the company to grow its earnings-per-share by 4% per year on average over the next five years. The company has a good track record in volatile markets with experienced trading, logistics, and operations. Increasing global demand, product innovation and M&A growth in fertilizers are key to success.

The company has a long history of paying dividends and has increased its payout for 26 consecutive years. In December 2021, the quarterly dividend increased by 3% from \$0.1750 to \$0.18 per share. Over the last five years, the average annual dividend growth rate is 2.1%.

<sup>1</sup> Estimated Date.

<sup>2</sup> 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	2022	2027
Avg. P/E	21.6	12.9	14.9	19.6	82.9	11.3	23.5	50.5	81.0	15.3	9.7	15.0
Avg. Yld.	1.9%	1.0%	0.8%	1.5%	1.8%	1.8%	1.9%	2.5%	3.8%	1.8%	2.1%	1.3%

During the past decade shares of The Andersons Inc. have traded with an average price-to-earnings ratio of about 33 times earnings and today, it stands at 9.7. We are using 15 times earnings as a fair value baseline, implying the potential for a valuation tailwind. For context, the average industry price-to-earnings is 19.8. The company's dividend yield is currently 2.1% and the dividend raises in the last few years contributed modestly to total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	14%	14%	11%	29%	154%	21%	46%	125%	304%	23%	20%	20%

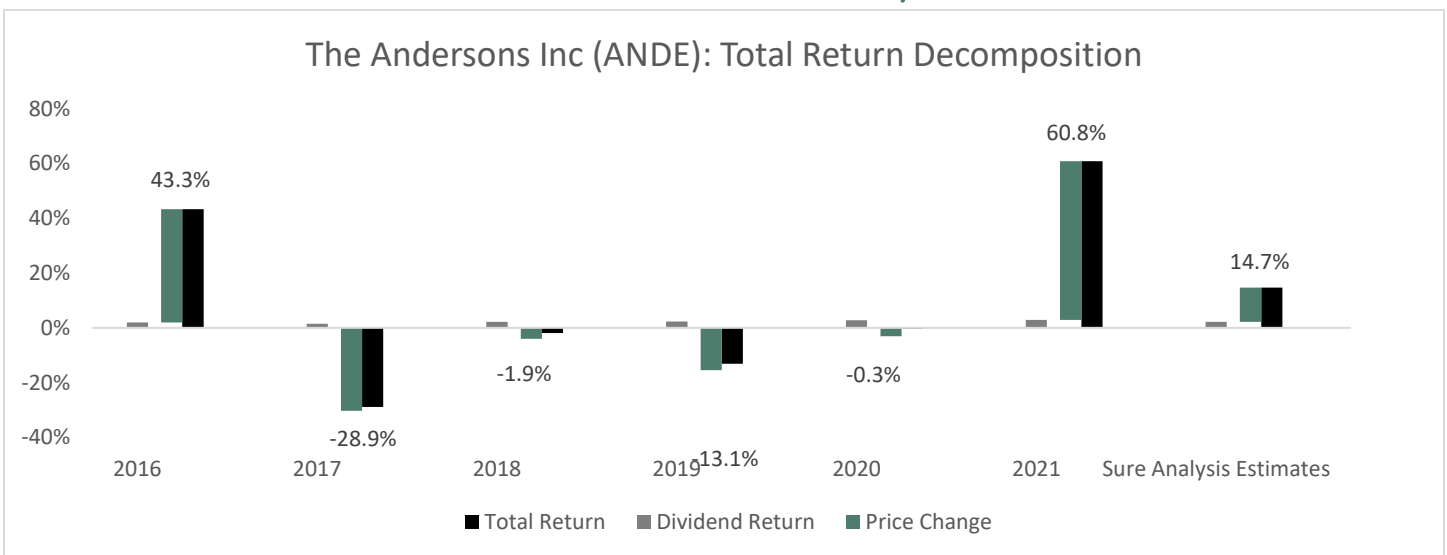
During the past five years, the company's dividend payout ratio has averaged around 103%. This high payout ratio is mainly related to low earnings-per-share in 2019 and 2020, while the company maintained its dividend growth policy. We expect that earnings growth will be modest but stable, meaning that there is still room for the dividend to continue to grow with a payout ratio below 30%.

The Andersons presented four robust back-to-back quarter results in 2021 and started to surge on the back of the Ukraine crisis in 2022. The company has been picked up by investors when the Ukraine crisis started as it was seen as a consumer defensive stock and a commodity stock. As a result, the share price reached an all-time-high of \$59 in Q1-2022. However, after the disappointing Q1-2022 earnings the share price dropped significantly. Although, the last two quarterly results were better than expected, the share price has yet to recover from this drop.

## Final Thoughts & Recommendation

We believe that the company's earnings and revenue could continue to grow modestly in the coming years. Revenue is predominantly dependent on the Trade segment, which has a volatile profile. The 26 consecutive years of dividend growth are comforting. We estimate a total return potential of 14.7% per year for the next five years, driven by 4% earnings growth, a 2.1% dividend yield, and a valuation tailwind. Shares earn a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	5,272	5,605	4,540	4,198	3,925	3,686	3,045	8,003	8,065	12,612
<b>Gross Profit</b>	358	365	397	376	346	319	302	461	366	593
<b>Gross Margin</b>	6.8%	6.5%	8.7%	9.0%	8.8%	8.6%	9.9%	5.8%	4.5%	4.7%
<b>SG&amp;A Exp.</b>	247	278	316	389	---	---	---	410	378	424
<b>D&amp;A Exp.</b>	49	55	62	78	84	86	90	146	189	179
<b>Operating Profit</b>	111	87	81	(13)	29	32	44	51	(11)	169
<b>Operating Margin</b>	2.1%	1.5%	1.8%	-0.3%	0.7%	0.9%	1.4%	0.6%	-0.1%	1.3%
<b>Net Profit</b>	79	90	110	(13)	12	43	41	18	8	104
<b>Net Margin</b>	1.5%	1.6%	2.4%	-0.3%	0.3%	1.2%	1.4%	0.2%	0.1%	0.8%
<b>Free Cash Flow</b>	148	198	(160)	(33)	(123)	(102)	(345)	78	(179)	(133)
<b>Income Tax</b>	45	54	62	(0)	7	(63)	12	9	(11)	29

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	2,182	2,274	2,365	2,359	2,233	2,162	2,392	3,901	4,272	4,569
<b>Cash &amp; Equivalents</b>	138	309	115	64	63	35	23	55	29	216
<b>Accounts Receivable</b>	209	174	183	171	195	183	207	536	641	835
<b>Inventories</b>	777	615	796	747	683	649	691	1,171	1,293	1,815
<b>Goodwill &amp; Int. Ass.</b>	80	78	139	184	170	119	105	311	272	246
<b>Total Liabilities</b>	1,571	1,549	1,541	1,575	1,442	1,339	1,515	2,705	3,111	3,262
<b>Accounts Payable</b>	748	747	707	669	582	504	463	873	955	1,199
<b>Long-Term Debt</b>	467	427	377	481	474	495	723	1,226	1,360	1,135
<b>Shareholder's Equity</b>	594	701	803	764	774	815	830	974	962	1,072
<b>LTD/E Ratio</b>	0.79	0.61	0.47	0.63	0.61	0.61	0.87	1.26	1.41	1.06

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	4.1%	4.0%	4.7%	-0.6%	0.5%	1.9%	1.8%	0.6%	0.2%	2.4%
<b>Return on Equity</b>	14.2%	13.9%	14.6%	-1.7%	1.5%	5.3%	5.0%	2.0%	0.8%	10.2%
<b>ROIC</b>	8.1%	8.1%	9.3%	-1.1%	0.9%	3.3%	2.8%	0.9%	0.3%	4.2%
<b>Shares Out.</b>	27	28	29	28	28	28	28	33	33	34
<b>Revenue/Share</b>	188.0	198.84	159.57	148.42	138.05	130.28	107.04	241.82	242.99	372.53
<b>FCF/Share</b>	5.28	7.02	(5.62)	(1.18)	(4.34)	(3.62)	(12.1)	2.36	(5.40)	(3.92)

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

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