



Hormel Foods Corporation (HRL)

Updated December 14th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	5.8%	Market Cap:	\$26 B
Fair Value Price:	\$42	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/13/23 ¹
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	02/15/23
Dividend Yield:	2.3%	5 Year Price Target	\$56	Years Of Dividend Growth:	57
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 \$26 billion market capitalization juggernaut in the food products industry with about \$12.7 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 57 consecutive years.

Hormel reported fourth quarter and full-year earnings on November 30th, 2022, and results were somewhat mixed. Earnings-per-share beat expectations by two cents, coming in at 51 cents. Revenue, however, fell 5% to \$3.3 billion, and missed estimates by \$50 million.

Organic sales were up 2%, excluding the impact of the additional week that was present in the prior year's fourth quarter. Operating income was \$367 million, up 3%. Operating margin was 11.2%, which was 80 basis points higher than last year's Q4. Earnings-per-share were flat at 51 cents.

Cash flow from operations came to \$372 million, down 34% year-over-year. The company said it expects to see volatile costs and sales for the foreseeable future given supply chain constraints and inflationary pressures.

We're out with an initial estimate of \$1.90 in earnings-per-share for this year, which would be a marginally higher new record, if achieved.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.98	\$1.12	\$1.32	\$1.64	\$1.57	\$1.86	\$1.74	\$1.66	\$1.73	\$1.82	\$1.90	\$2.54
DPS	\$0.34	\$0.40	\$0.50	\$0.58	\$0.68	\$0.75	\$0.84	\$0.93	\$0.98	\$1.04	\$1.10	\$1.40
Shares²	526	527	527	528	528	529	544	548	542	546	545	545

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 2023 on cost inflation, but we note Q4 2022 results were once again 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.8	21.3	21.6	23.4	21.8	19.3	24.2	28.4	26.9	25.0	24.7	22.0
Avg. Yld.	1.8%	1.7%	1.8%	1.5%	2.0%	2.1%	2.0%	2.0%	2.1%	2.3%	2.3%	2.5%

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 24.7 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 relative 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 2023, this time adding just under 6% to its payout, marking its 57th consecutive year of dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	34%	35%	33%	41%	40%	48%	56%	57%	57%	58%	55%

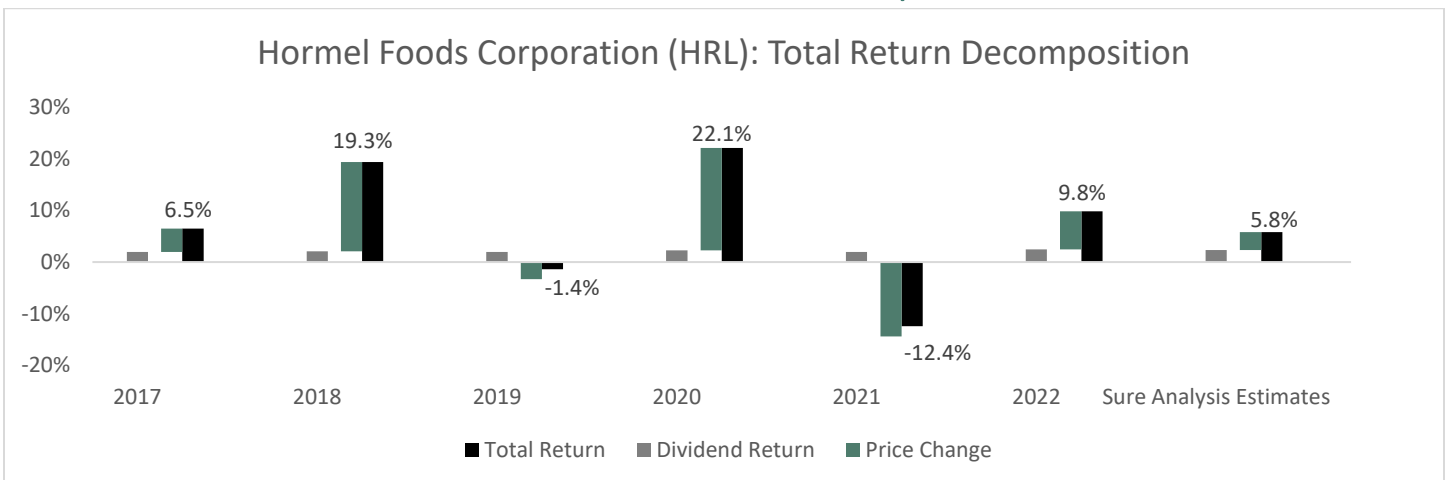
Hormel's payout ratio is just over half of earnings, and we expect that it will remain this way for the foreseeable future. Management is certainly committed to the dividend, but it wants to acquire growth as well, which uses cash.

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, we forecast 5.8% total annual returns for Hormel. These could accrue from 6% growth, with the 2.3% yield and 2.3% valuation headwind offsetting each other. We're reiterating Hormel at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	8752	9316	9264	9523	9168	9546	9497	9,608	11,386	12,459
Gross Profit	1413	1565	1809	2158	1997	1979	1885	1,826	1,928	2,165
Gross Margin	16.1%	16.8%	19.5%	22.7%	21.8%	20.7%	19.8%	19.0%	16.9%	17.4%
SG&A Exp.	627	651	744	872	759	841	728	761	853	879
D&A Exp.	125	130	133	132	131	162	165	206	228	263
Operating Profit	785	914	1065	1286	1237	1138	1157	1,065	1,075	1,285
Operating Margin	9.0%	9.8%	11.5%	13.5%	13.5%	11.9%	12.2%	11.1%	9.4%	10.3%
Net Profit	526	603	686	890	847	1012	979	908	909	1,000
Net Margin	6.0%	6.5%	7.4%	9.3%	9.2%	10.6%	10.3%	9.5%	8.0%	8.0%
Free Cash Flow	531	588	848	784	813	852	629	761	770	856
Income Tax	268	316	370	427	432	169	231	206	217	278

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4916	5456	6140	6370	6976	8142	8109	9,908	12,696	13,307
Cash & Equivalents	434	334	347	415	444	459	673	1,714	614	982
Accounts Receivable	552	610	606	591	618	600	574	702	896	868
Inventories	968	1055	993	986	921	964	1042	1,073	1,369	1,716
Goodwill & Int. Ass.	1313	1781	2527	2738	3147	3921	3516	3,689	6,751	6,729
Total Liabilities	1599	1844	2138	1919	2036	2537	2183	3,478	5,718	5,767
Accounts Payable	387	484	495	482	553	619	590	645	793	817
Long-Term Debt	250	250	435	250	250	625	250	1,304	3,324	3,299
Shareholder's Equity	3311	3606	3998	4448	4936	5601	5921	6,426	6,973	7,535
LTD/E Ratio	0.08	0.07	0.11	0.06	0.05	0.11	0.04	0.20	0.48	0.44

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.1%	11.6%	11.8%	14.2%	12.7%	13.4%	12.0%	10.1%	8.0%	7.7%
Return on Equity	17.2%	17.4%	18.0%	21.1%	18.0%	19.2%	17.0%	14.7%	13.6%	13.8%
ROIC	15.8%	16.2%	16.5%	19.5%	17.1%	17.7%	15.8%	13.1%	10.1%	9.5%
Shares Out.	526	527	527	528	528	529	544	548	542	550
Revenue/Share	16.19	17.24	17.12	17.56	17.00	17.55	17.42	17.58	20.79	22.67
FCF/Share	0.98	1.09	1.57	1.45	1.51	1.57	1.15	1.39	1.41	1.56

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

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