



Conagra Brands Inc. (CAG)

Updated July 18th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	12.9%	Market Cap:	\$16 B
Fair Value Price:	\$38	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	07/28/23
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	08/31/23
Dividend Yield:	4.4 %	5 Year Price Target	\$51	Years Of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Conagra traces its roots back to Gilbert Van Camp's new canned product – pork and beans – in 1861. The company was incorporated as Nebraska Consolidated Mills in 1919, changed to ConAgra in 1971, ConAgra Foods in 1993, and has now become Conagra Brands, moving its headquarters from Omaha to Chicago and spinning off its Lamb Weston business in 2016. In 2018 Conagra acquired Pinnacle Foods. Today the \$16 billion market cap company has well-known brands like Slim Jim, Healthy Choice, Marie Callender's, Orville Redenbacher's, Reddi Whip, Birds Eye, Vlasic, Hunt's, and PAM.

On January 25th, 2021, Conagra sold its Peter Pan peanut butter business to Post Holdings. And on May 27th, 2021, Conagra sold its Egg Beaters business to Post Holdings.

After paying the same \$0.2125 quarterly payout for 13 consecutive quarters, Conagra increased its dividend 29.4% in 2020, 13.6% in 2021, 5.6% in 2022, and 6.1% in 2023 to \$0.35 per quarter.

On July 13th, 2023, Conagra reported fourth quarter FY 2023 results for the period ending May 28th, 2023. (Conagra's fiscal year ends the last Sunday in May). For the quarter, net sales increased 2.2% to \$3.0 billion, due to a 9.9% improvement in price/mix, offset by a 7.7% decline in volume. Adjusted net income decreased 5.1% to \$366 million, or \$0.62 per share.

For FY 2023, net sales rose 6.4% to \$12.3 billion, and adjusted EPS increased 17.4% to \$2.77.

Conagra provided its fiscal 2024 guidance. The company expects 1% organic sales growth and adjusted earnings-per-share decrease of between -2.5% and -0.7% over fiscal 2023. Adjusted operating margin is expected to come in around 16.25%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.17	\$2.18	\$2.08	\$1.74	\$2.11	\$2.01	\$2.28	\$2.64	\$2.36	\$2.77	\$2.73	\$3.65
DPS	\$1.00	\$1.00	\$1.00	\$0.90	\$0.85	\$0.85	\$0.85	\$0.98	\$1.25	\$1.32	\$1.40	\$1.70
Shares¹	423	428	438	417	391	444	487	489	482	482	481	475

From 2009 through 2015, Conagra grew earnings-per-share by over 6% annually. However, in the 2015 to 2019 period earnings growth stalled and indeed declined. To be fair, part of this can be explained by the Lamb Weston spin-off, but the share count was also reduced during this time. (Also note that the dividend was not technically cut in 2017 due to this same spin-off, but instead rebased to reflect a small increase for the legacy shareholder.)

From 2019 to 2022, Conagra saw a terrific boon to its results due to the COVID-19 pandemic, with adjusted EPS jumping 13% in fiscal 2020 and 16% in fiscal 2021. Further, the dividend was increased significantly to reflect these results. While results were down in fiscal 2022, they surpassed their previous peak in FY 2023. EPS for 2024 are expected to be softer than 2023, in large part due to increasing interest expense, which grew 8% in FY 2023 to \$410 million and is expected to be \$450 million in FY 2024. Additionally, Conagra is faced with cost pressures that are anticipated to continue into fiscal 2024; net inflation is expected to be about 3% for the company.

¹ 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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Conagra has been implementing additional inflation-driven pricing actions; however, this is impacting volume in a negative way, with organic volume dropping 7.5% for fiscal 2023. Still, pricing actions are surpassing volume declines. We are forecasting 6% intermediate term growth from here on out.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.8	14.9	15.8	20.3	24.4	17	15.4	13.1	13.9	14.5	11.8	14.0
Avg. Yld.	3.3%	3.1%	2.9%	2.4%	2.1%	2.4%	2.7%	2.8%	2.7%	3.6%	4.4%	3.3%

During the past decade shares of Conagra have traded hands with an average P/E ratio of about 16 times earnings. However, this was during a time when the business was growing at a reasonable pace, which we expect to taper off over the intermediate term. We are more comfortable with 14.0 times earnings as a starting place, considering the subdued expectations. With shares presently trading hands at below 12.0 times forecasted earnings, this implies a meaningful positive impact on total returns from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	46%	46%	46%	48%	52%	40%	42%	37%	37%	53%	51%	47%

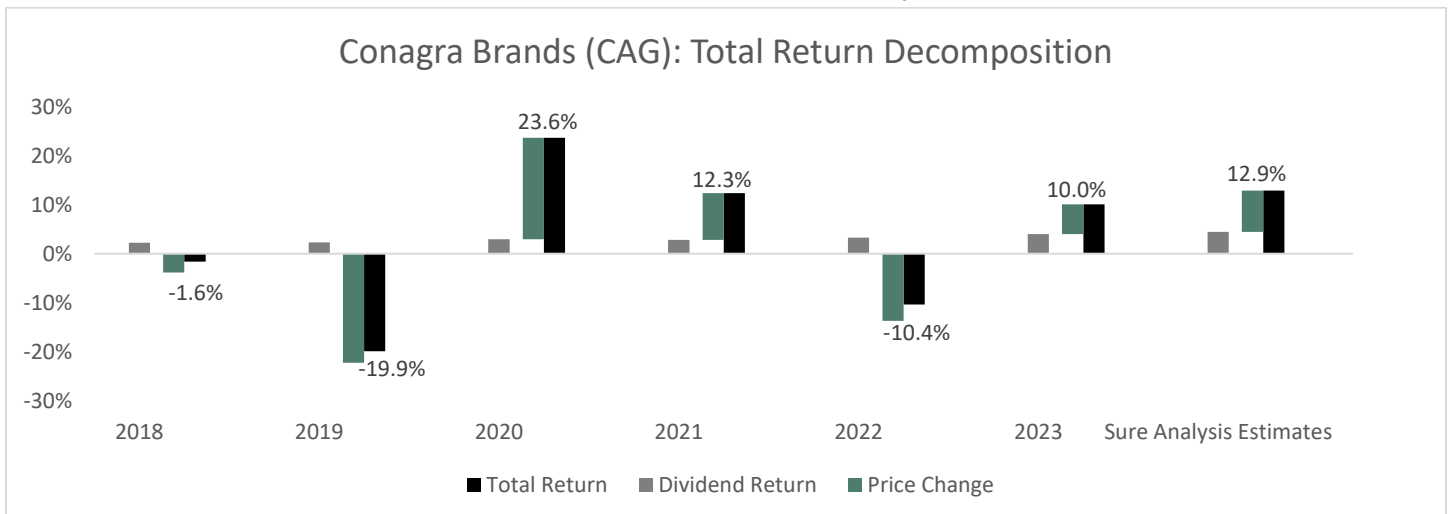
Conagra's competitive advantage lies in its brand strength. The quality of this advantage has been called into question as consumer preferences are changing. However, Conagra performed exceptionally well amid the pandemic.

As of the most recent quarterly report, Conagra held \$94 million in cash and cash equivalents, \$3.4 billion in current assets and \$22.1 billion in total assets against \$4.4 billion in current liabilities and \$13.2 billion in total liabilities. However, keep in mind that \$11.2 billion of those assets are comprised of goodwill, mostly stemming from the Pinnacle Foods acquisition. Long-term debt stood at \$7.1 billion.

Final Thoughts & Recommendation

Shares are down 4% in the last one year period, which pales in comparison to the 19% gain in the S&P 500. Conagra has proven to be a solid business for a century now. It has strong brands and enjoys a consistent profit engine, which has proven beneficial in the pandemic. Total return potential comes in at 12.9% per annum, stemming from 6.0% growth and a 4.4% starting yield, as well as a potential tailwind to the valuation. We are upgrading CAG from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	11838	9034	8664	7827	7938	9538	11050	11180	11536	12280
Gross Profit	2927	2296	2429	2342	2352	2653	3070	3179	2839	3265
Gross Margin	24.7%	25.4%	28.0%	29.9%	29.6%	27.8%	27.8%	28.4%	24.6%	26.6%
SG&A Exp.	1779	1383	2025	1417	1318	1473	1622	1403	1493	2190
D&A Exp.	355	285	279	268	257	333	389	388	375	370
Operating Profit	1149	913	405	925	1034	1180	1447	1776	1346	1075
Op. Margin	9.7%	10.1%	4.7%	11.8%	13.0%	12.4%	13.1%	15.9%	11.7%	8.8%
Net Profit	303	-253	-677	639	808	678	840	1299	888	684
Net Margin	2.6%	-2.8%	-7.8%	8.2%	10.2%	7.1%	7.6%	11.6%	7.7%	5.6%
Free Cash Flow	1108	1268	982	933	703	772	1473	962	713	633
Income Tax	178	213	46	255	175	219	201	194	291	219

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	19320	17438	13391	10096	10390	22210	22300	22200	22435	22050
Cash & Equivalents	141	165	798	251	128	237	553	79	83	94
Acc. Receivable	1058	739	650	563	583	818	861	794	867	965
Inventories	2077	1643	1044	928	997	1549	1378	1734	1940	2232
Goodwill & Int.	11033	5817	5542	5519	5787	15970	15750	15530	15182	14380
Total Liabilities	13964	12828	9596	6019	6633	14750	14350	13560	13573	13250
Accounts Payable	1349	1080	707	773	915	1252	1526	1656	1865	1529
Long-Term Debt	8946	7905	5455	2996	3816	10680	9747	9006	8980	9239
Total Equity	5259	4526	3714	3991	3676	7385	7876	8552	8788	8737
D/E Ratio	1.70	1.75	1.47	0.75	1.04	1.45	1.24	1.05	1.02	1.06

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.5%	-1.4%	-4.4%	5.4%	7.9%	4.2%	3.8%	5.8%	4%	3.1%
Return on Equity	5.8%	-5.2%	-16.4%	16.6%	21.1%	12.3%	11.0%	15.8%	10%	7.8%
ROIC	2.1%	-1.9%	-6.2%	7.8%	11.0%	5.28%	4.7%	7.4%	5%	3.8%
Shares Out.	428	438	417	391	444	446	489	488	480	481
Revenue/Share	27.69	20.95	19.76	17.95	19.49	21.41	22.62	22.93	23.92	25.54
FCF/Share	2.59	2.94	2.24	2.14	1.72	1.73	3.02	1.97	1.48	1.32

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

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