



# Hormel Foods Corporation (HRL)

Updated September 3<sup>rd</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$38	<b>5 Year CAGR Estimate:</b>	5.8%	<b>Market Cap:</b>	\$21 B
<b>Fair Value Price:</b>	\$36	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	10/14/23 <sup>1</sup>
<b>% Fair Value:</b>	105%	<b>5 Year Valuation Multiple Estimate:</b>	-0.9%	<b>Dividend Payment Date:</b>	11/15/23
<b>Dividend Yield:</b>	2.9%	<b>5 Year Price Target</b>	\$44	<b>Years Of Dividend Growth:</b>	57
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Hormel Foods was founded in 1891 in Minnesota. Since that time, the company has grown into a \$21 billion market capitalization juggernaut in the food products industry with over \$12 billion in annual revenue. Hormel has kept 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 posted third quarter earnings on August 31<sup>st</sup>, 2023, and results were weaker than expected on both the top and bottom lines. Adjusted earnings-per-share came to 40 cents, which missed estimates by a penny. Revenue fell 2.3% year-over-year to \$2.96 billion, which missed consensus by \$90 million. Retail segment volume was up 1%, while net sales fell 2%, and segment profit was down 7%. Foodservice volume was up 2%, while net sales fell 3%, but segment profit rose 14%. The international segment saw volume decline 10%, while net sales fell 6%, and segment profit was cut in half.

The company said volume growth was driven by stronger results from turkey, broad demand for foodservice products, and strength in SPAM, Black Label, Planters, and pepperoni. Some of this was offset by supply chain disruptions in the company's international segment.

We now see \$1.65 in earnings-per-share for this year after weaker than expected Q3 earnings.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$0.98	\$1.12	\$1.32	\$1.64	\$1.57	\$1.86	\$1.74	\$1.66	\$1.73	\$1.82	<b>\$1.65</b>	<b>\$2.01</b>
<b>DPS</b>	\$0.34	\$0.40	\$0.50	\$0.58	\$0.68	\$0.75	\$0.84	\$0.93	\$0.98	\$1.04	<b>\$1.10</b>	<b>\$1.34</b>
<b>Shares<sup>2</sup></b>	526	527	527	528	528	529	544	548	542	546	<b>545</b>	<b>545</b>

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 note that 2023 earnings are almost certain to be below 2022.

We are forecasting forward earnings growth of 4% 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.

<sup>1</sup> Estimated date

<sup>2</sup> 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	<b>23.0</b>	<b>22.0</b>
Avg. Yld.	1.8%	1.7%	1.8%	1.5%	2.0%	2.1%	2.0%	2.0%	2.1%	2.3%	<b>2.9%</b>	<b>3.0%</b>

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 23 now and we believe it could move lower over time towards our fair value estimate of 22 times earnings. That works out to a fractional headwind to total returns over the next five years as the stock is now very close to fair value. 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 57<sup>th</sup> 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%	<b>67%</b>	<b>67%</b>

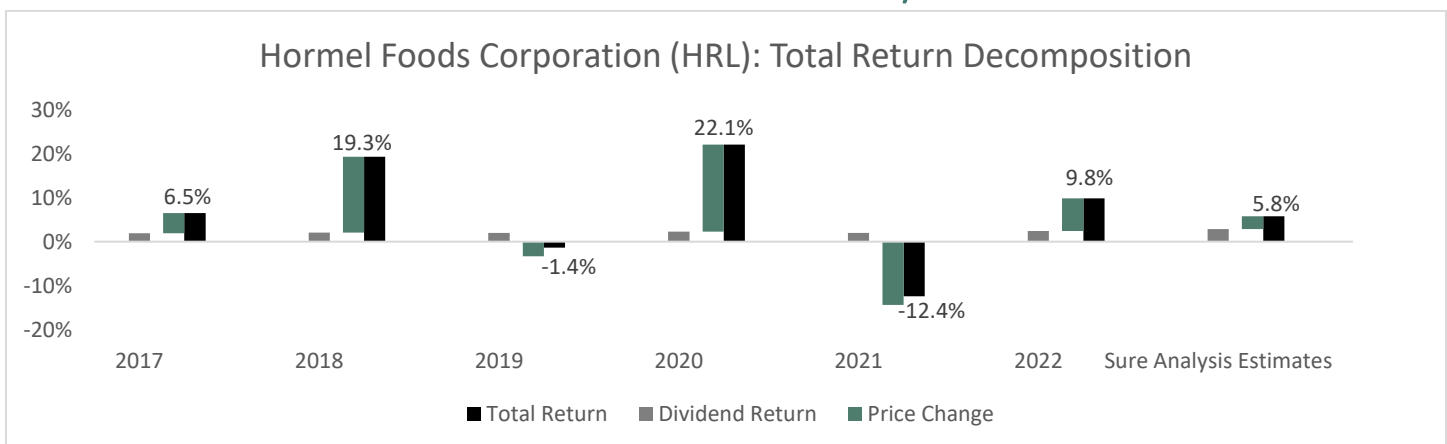
Hormel's payout ratio is just under 70% of earnings, and we expect that it will remain this way for the foreseeable future. Management is certainly committed to the dividend, but it wants to acquire growth as well, which uses cash.

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 slightly overvalued today in our view, although the valuation improved slightly since 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 now moving lower, and growth still an issue, we forecast 5.8% total annual returns for Hormel. These could accrue from 4% growth, with the 2.9% yield and 0.9% valuation headwind. 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
<b>Revenue</b>	8752	9316	9264	9523	9168	9546	9497	9,608	11,386	12,459
<b>Gross Profit</b>	1413	1565	1809	2158	1997	1979	1885	1,826	1,928	2,165
<b>Gross Margin</b>	16.1%	16.8%	19.5%	22.7%	21.8%	20.7%	19.8%	19.0%	16.9%	17.4%
<b>SG&amp;A Exp.</b>	627	651	744	872	759	841	728	761	853	879
<b>D&amp;A Exp.</b>	125	130	133	132	131	162	165	206	228	263
<b>Operating Profit</b>	785	914	1065	1286	1237	1138	1157	1,065	1,075	1,285
<b>Operating Margin</b>	9.0%	9.8%	11.5%	13.5%	13.5%	11.9%	12.2%	11.1%	9.4%	10.3%
<b>Net Profit</b>	526	603	686	890	847	1012	979	908	909	1,000
<b>Net Margin</b>	6.0%	6.5%	7.4%	9.3%	9.2%	10.6%	10.3%	9.5%	8.0%	8.0%
<b>Free Cash Flow</b>	531	588	848	784	813	852	629	761	770	856
<b>Income Tax</b>	268	316	370	427	432	169	231	206	217	278

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	4916	5456	6140	6370	6976	8142	8109	9,908	12,696	13,307
<b>Cash &amp; Equivalents</b>	434	334	347	415	444	459	673	1,714	614	982
<b>Accounts Receivable</b>	552	610	606	591	618	600	574	702	896	868
<b>Inventories</b>	968	1055	993	986	921	964	1042	1,073	1,369	1,716
<b>Goodwill &amp; Int. Ass.</b>	1313	1781	2527	2738	3147	3921	3516	3,689	6,751	6,729
<b>Total Liabilities</b>	1599	1844	2138	1919	2036	2537	2183	3,478	5,718	5,767
<b>Accounts Payable</b>	387	484	495	482	553	619	590	645	793	817
<b>Long-Term Debt</b>	250	250	435	250	250	625	250	1,304	3,324	3,299
<b>Shareholder's Equity</b>	3311	3606	3998	4448	4936	5601	5921	6,426	6,973	7,535
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	11.1%	11.6%	11.8%	14.2%	12.7%	13.4%	12.0%	10.1%	8.0%	7.7%
<b>Return on Equity</b>	17.2%	17.4%	18.0%	21.1%	18.0%	19.2%	17.0%	14.7%	13.6%	13.8%
<b>ROIC</b>	15.8%	16.2%	16.5%	19.5%	17.1%	17.7%	15.8%	13.1%	10.1%	9.5%
<b>Shares Out.</b>	526	527	527	528	528	529	544	548	542	550
<b>Revenue/Share</b>	16.19	17.24	17.12	17.56	17.00	17.55	17.42	17.58	20.79	22.67
<b>FCF/Share</b>	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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