The Hershey Company (HSY)

Updated October 26th, 2023, by Eli Inkrot

Key Metrics

Current Price:	$193	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$40 B
Fair Value Price:	$189	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	11/16/23
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Dividend Payment Date:**	12/15/23
Dividend Yield:	2.5%	**5 Year Price Target**	$241	**Years Of Dividend Growth:**	14
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

The Hershey Company, founded in 1894, is a chocolate and sugar confectionary products manufacturer that sells major brands such as Hershey's, Reese's, Kisses, Cadbury, Ice Breakers, Kit Kat, Almond Joy, Jolly Rancher, Twizzlers, Heath, and Milk Duds. Hershey primarily operates in North America but has international operations as well. The company is headquartered in Hershey, PA, and trades with a market capitalization of $40 billion.

On December 14th, 2021, Hershey completed the acquisition of Dot's Pretzels.

On February 1st, 2022, Hershey announced it was changing its reportable segments to North America Confectionery, North America Salty Snacks, and International.

On July 26th, 2023, Hershey declared a $1.192 quarterly dividend, marking a 15.1% increase.

On October 26th, 2023, Hershey reported Q3 results for the period ending October 1st, 2023. For the quarter, the company generated consolidated net sales of $3.03 billion, an 11.1% increase compared to Q3 2022. The North America Confectionary segment (81% of sales) increased 9.9%. Reported net income equaled $518.6 million or $2.52 per share, while adjusted earnings-per-share equaled $2.60, a 19.8% increase.

Hershey also reiterated its 2023 outlook. The company expects ~8% sales growth and 11% to 12% adjusted earnings-per-share growth (both unchanged from previous guidance).

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.72	$3.98	$4.12	$4.41	$4.76	$5.36	$5.78	$6.29	$7.19	$8.52	***$9.46***	***$12.07***
DPS	$1.81	$2.04	$2.24	$2.40	$2.55	$2.76	$2.99	$3.15	$3.41	$3.87	***$4.78***	***$6.10***
Shares[1]	224	221	217	212	211	210	209	209	207	206	***205***	***200***

Hershey has recorded both strong and consistent growth over the last decade, with earnings-per-share growing every year since 2008. Since 2007 the earnings-per-share growth rate has come in at an average of 9.9% per annum.

Hershey's earnings-per-share growth stems from several factors. The first one is organic revenue growth, which Hershey has managed to achieve despite the public becoming more conscious about healthy eating habits. The company has also been able to improve its margins throughout the last decade. Hershey owns well-recognized brands, so pricing increases have not been a headwind to increasing the volume of its products. Hershey had also been moderately repurchasing its shares, which has added some additional growth to the company's earnings-per-share. In 2018 Hershey's earnings-per-share growth was above the long-term average, but that was primarily due to the impact of a lower tax rate and the effect of the Amplify acquisition, which was responsible for most of the company's revenue growth.

The COVID-19 pandemic tested all businesses, but Hershey is set up well for nearly any environment. To this point, 2020 and 2021 proved to be standout years. We are forecasting 5% annual growth.

[1] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.2	24.5	23.0	21.9	22.8	18.8	23.2	23.4	23.8	27.5	***20.4***	***20.0***
Avg. Yld.	2.0%	2.1%	2.4%	2.5%	2.3%	2.7%	2.2%	2.2%	2.0%	1.8%	***2.5%***	***2.5%***

During the past decade, shares of Hershey have traded hands with an average P/E ratio of about 23 times earnings. While we believe a premium multiple is warranted, we are a bit more cautious – using 20 times earnings as a starting place – given the reduced growth expectations. The security presently trades near 20 times our estimated earnings for this year, implying little change from the valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49%	51%	54%	54%	54%	51%	52%	50%	47%	45%	***51%***	***51%***

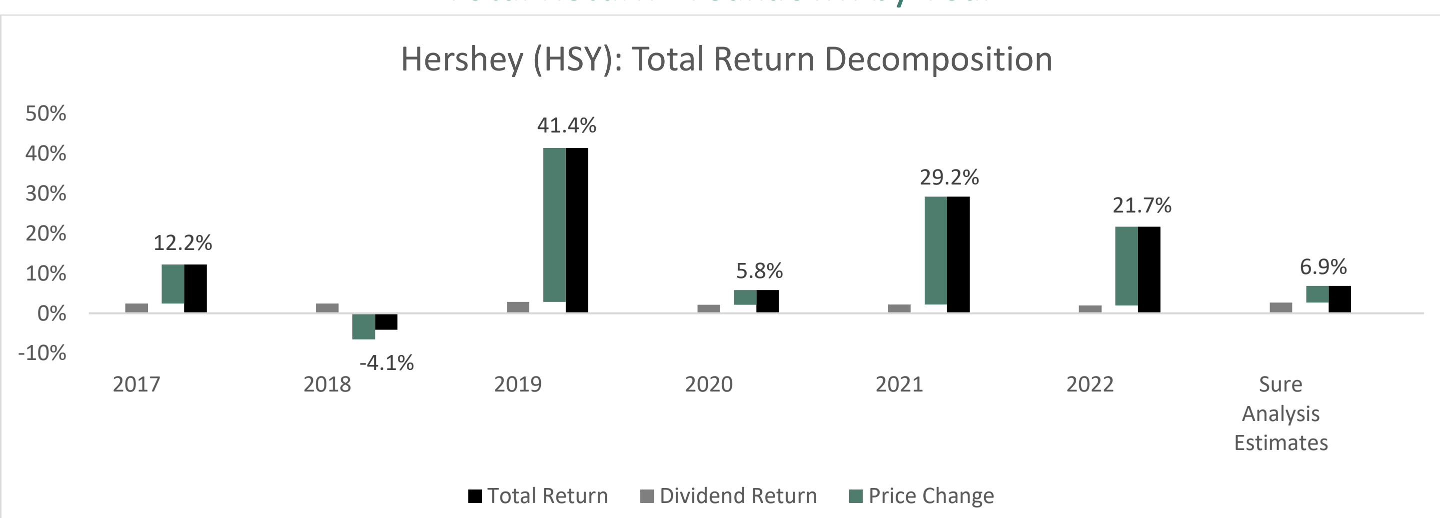
Hershey's dividend payout ratio has moved in a very narrow range throughout the last decade. The company has paid around half of its net profits in the form of dividends throughout this period. The stability of the payout ratio even during the last financial crisis, coupled with the fact that the payout ratio is not overly high on an absolute basis, makes us believe that Hershey's dividend is relatively safe.

Hershey is one of the top chocolate and confectionary companies in the world, controlling iconic brands that are ubiquitous to consumers. Competition is not an overwhelming problem for the company, but if customers became more health-conscious, that could hurt the growth rate for the whole industry. During the last financial crisis – an especially severe recession – the company managed to increase both its profits and its sales, although the dividend was frozen. In addition, 2020 results were strong as well.

Final Thoughts & Recommendation

Shares are down 15% in the last year. Hershey is a solid company, generating highly attractive earnings and dividend growth in the past. On top of that, Hershey is not especially vulnerable to recessions, which makes the company's shares a viable choice for risk-averse investors. Total annual return potential comes in at 6.9% per annum - stemming from 5% growth and a 2.5% starting dividend. We are enthused by the quality of the business, but believe shares are fairly valued at this juncture. Shares earn a hold rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	7,146	7,422	7,387	7,440	7,515	7,791	7,986	8,150	8,971	10,420
Gross Profit	3,281	3,336	3,383	3,170	3,455	3,575	3,622	3,701	4,049	4,499
Gross Margin	45.9%	45.0%	45.8%	42.6%	46.0%	45.9%	45.4%	45.4%	45.1%	43.2%
SG&A Exp.	1,924	1,898	1,969	1,891	1,885	1,875	1,906	1,891	2,001	2,236
D&A Exp.	201	212	245	302	262	295	292	295	---	379
Operating Profit	1,357	1,438	1,413	1,278	1,570	1,700	1,717	1,810	2,047	2,263
Operating Margin	19.0%	19.4%	19.1%	17.2%	20.9%	21.8%	21.5%	22.2%	22.8%	21.7%
Net Profit	820	847	513	720	783	1,178	1,150	1,279	1,478	1,645
Net Margin	11.5%	11.4%	6.9%	9.7%	10.4%	15.1%	14.4%	15.7%	16.5%	15.8%
Free Cash Flow	840	474	900	744	992	1,271	1,446	1,258	---	1,808
Income Tax	431	459	389	379	354	239	234	220	314	272

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,357	5,623	5,344	5,524	5,554	7,703	8,140	9,132	10,410	10,950
Cash & Equivalents	1,119	375	347	297	380	588	493	1,144	329	464
Accounts Receivable	478	597	599	581	588	594	569	615	671	711
Inventories	660	801	751	746	753	785	815	964	989	1,173
Goodwill & Int. Ass.	828	1,151	1,132	1,400	1,295	3,206	3,327	3,471	4,671	4,893
Total Liabilities	3,741	4,103	4,297	4,697	4,622	6,296	6,395	6,894	7,655	7,649
Accounts Payable	462	482	474	523	523	502	551	580	692	971
Long-Term Debt	1,962	2,178	2,421	2,980	2,920	4,458	4,266	4,522	5,029	4,791
Shareholder's Equity	1,605	1,455	998	786	915	1,399	1,745	2,234	2,757	3,300
LTD/E Ratio	1.22	1.50	2.43	3.79	3.19	3.19	2.45	2.02	1.82	1.45

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	16.2%	15.4%	9.4%	13.2%	14.1%	17.8%	14.5%	14.8%	15.1%	15.4%
Return on Equity	62.1%	55.4%	41.8%	80.7%	92.1%	102%	73.1%	64.4%	59.2%	54.3%
ROIC	25.1%	23.3%	14.3%	19.8%	20.4%	24.2%	19.4%	20.2%	20.3%	20.7%
Shares Out.	224	221	217	212	211	210	211	209	208	207
Revenue/Share	31.45	33.01	33.48	34.56	35.16	36.93	29.44	38.92	43.18	50.44
FCF/Share	3.70	2.11	4.08	3.46	4.64	6.03	6.86	6.01	---	8.75

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