



# Archer-Daniels-Midland (ADM)

Updated November 11<sup>th</sup>, 2023 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$73	<b>5 Year CAGR Estimate:</b>	12.0%	<b>Market Cap:</b>	\$38.6 B
<b>Fair Value Price:</b>	\$102	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	11/14/2023
<b>% Fair Value:</b>	71%	<b>5 Year Valuation Multiple Estimate:</b>	7.0%	<b>Dividend Payment Date:</b>	12/06/2023
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$118	<b>Years Of Dividend Growth:</b>	50
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

Archer-Daniels-Midland is the largest publicly traded farmland product company in the United States. The company, founded in 1902, trades with a market capitalization of \$38.6 billion. Archer-Daniels-Midland's businesses include processing cereal grains, oilseeds, and agricultural storage and transportation.

Archer-Daniels-Midland reported its third-quarter results for Fiscal Year (FY)2023 on October 24<sup>th</sup>, 2023. The company delivered robust financial results for Q3 2023 in the face of dynamic market conditions. Juan Luciano, Chair and CEO, highlighted strategic initiatives, including investments in innovation and operational efficiency, to meet evolving customer needs. The Ag Services & Oilseeds segment excelled, leveraging Brazilian export capabilities and addressing renewable green diesel demand through the Spiritwood production facility. Carbohydrate Solutions posted outstanding results, particularly in ethanol, starches, and sweeteners.

However, the Nutrition segment encountered challenges, with lower results in both Human and Animal Nutrition. Despite a decline in earnings for Q3 2023 compared to the previous year, ADM remains optimistic, raising its full-year earnings outlook. Key financial figures for the quarter include earnings per share (as reported) of \$1.52, adjusted earnings per share of \$1.63, segment operating profit of \$1,421 million, and adjusted segment operating profit of \$1,492 million.

ADM's adaptability and strategic moves position it optimistically for the remainder of 2023, building on a foundation of strong performance and the continuous adjustment of its business model. The company's Q3 2023 results underscore its resilience and ability to navigate market complexities, fostering confidence in its future prospects.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.33	\$3.20	\$2.55	\$2.16	\$2.13	\$3.50	\$3.24	\$3.59	\$5.19	\$7.85	<b>\$7.28</b>	<b>\$8.44</b>
<b>DPS</b>	\$0.76	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.44	\$1.48	\$1.60	<b>\$1.80</b>	<b>\$2.09</b>
<b>Shares<sup>1</sup></b>	659.0	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0	<b>563.0</b>	<b>563.0</b>

Unlike several dividend stocks that have achieved consistent year-over-year growth in earnings-per-share, Archer-Daniels-Midland (ADM) has faced challenges in boosting its profits over the past decade. Notably, its earnings-per-share for 2012 and 2013 were notably lower than those in 2011. However, the recent acquisition of Ziegler Group and the establishment of a nutrition flavor research and customer center are expected to contribute to improved growth prospects. This positive outlook leads us to anticipate a feasible growth rate of approximately 3.0% for the future.

ADM's business demonstrates resilience in times of economic recession, as the essential nature of food consumption remains unchanged even during downturns. However, the company does not experience the same degree of benefit from economic expansions. Unlike other enterprises that thrive on increased consumer spending during prosperous periods, ADM's revenue doesn't surge significantly due to the relatively stable demand for food. Consequently, while a

<sup>1</sup> Shares in Millions

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robust economy offers substantial advantages to many firms, it doesn't serve as a significant tailwind for Archer-Daniels-Midland.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.6	13.5	15.4	18.8	20.1	14.3	17.1	14.8	13.0	11.8	10.0	14.0
Avg. Yld.	2.8%	2.1%	2.4%	3.0%	3.0%	2.9%	3.1%	3.3%	2.2%	1.7%	2.5%	1.8%

Archer-Daniels-Midland has been valued at a price-to-earnings multiple of 15.6x over the last decade. Even though its price-to-earnings multiple has been as low as 9.5x and as high as 20.1x. Now, shares look relatively undervalued, with a current PE of 10x based on 2023 expected earnings of \$7.28. Also, investors get an above-average dividend yield of 2.5% at current prices than the S&P current dividend yield of 1.6%.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32.6%	30.0%	43.9%	55.6%	60.1%	38.3%	43.2%	40.1%	28.5%	20.4%	25%	25%

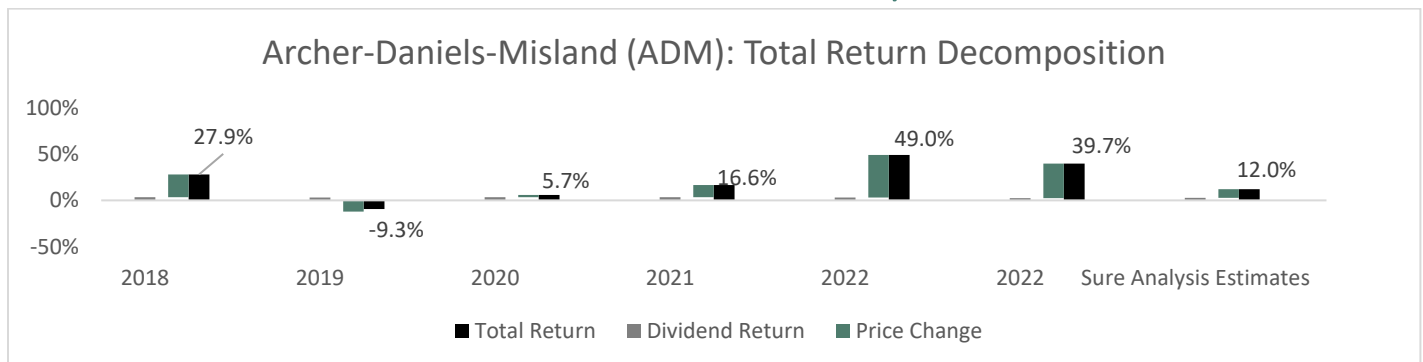
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's earnings-per-share solid growth, the dividend payout ratio declined considerably to 38% in 2018. The dividend payout ratio is not high, at only 25% based on 2023 earnings. Also, because the company's profits performed well during the last recession, which saw earnings grow from \$2.84 in 2008 to \$3.06 in 2009, we believe that the dividend is relatively safe.

Archer-Daniels-Midland's business is recession resilient since the demand for food products is not cyclical. Archer-Daniels-Midland is one of the most significant players in its industry and has competitive advantages due to its scale and geographical reach. The company has been increasing its dividend for 48 consecutive years and has a 5-year dividend growth rate of 6.1%. Archer-Daniels-Midland looks like a low-risk investment due to its recession resilience, solid balance sheet, geographic diversification, and dividend history. However, note that the company balance sheet Debt/Equity ratio is 0.4. This is a little higher than the past five-year average but not at a dangerous level for the company.

## Final Thoughts & Recommendation

We expect Archer-Daniels-Midland to grow earnings at 3.0% annually. Investors get an above-average dividend yield and an undervalued stock price with a fair price of \$102. The total return outlook is 12% annually for the next five years. We recommend that this company is a buy at the current price because of the expected returns.

## 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>	89,804	81,201	67,702	62,346	60,828	64,341	64,656	64,355	85,249	101,556
<b>Gross Profit</b>	3,889	4,768	3,966	3,618	3,518	4,181	4,147	4,453	5,987	7,570
<b>Gross Margin</b>	4.3%	5.9%	5.9%	5.8%	5.8%	6.5%	6.4%	6.9%	7.0%	7.5%
<b>SG&amp;A Exp.</b>	1,759	1,933	1,985	1,981	1,978	2,165	2,493	2,687	2,994	3,358
<b>D&amp;A Exp.</b>	909	894	882	900	924	941	993	976	996	1,028
<b>Operating Profit</b>	2,130	2,835	1,981	1,637	1,540	2,016	1,654	1,766	2,993	4,212
<b>Op. Margin</b>	2.4%	3.5%	2.9%	2.6%	2.5%	3.1%	2.6%	2.7%	3.5%	4.1%
<b>Net Profit</b>	1,342	2,248	1,849	1,279	1,595	1,810	1,379	1,772	2,709	4,340
<b>Net Margin</b>	1.5%	2.8%	2.7%	2.1%	2.6%	2.8%	2.1%	2.8%	3.2%	4.3%
<b>Free Cash Flow</b>	4,313	4,049	580	-7,390	-7,015	-5,626	-6,280	-3,209	5,426	2,159
<b>Income Tax</b>	670	877	438	534	7	245	209	101	578	868

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	43,752	43,997	40,157	39,769	39,963	40,833	43,997	49,719	56,136	59,774
<b>Cash &amp; Equivalents</b>	3,121	1,099	910	619	804	1,997	852	666	943	1,037
<b>Acc. Receivable</b>	4,522	4,236	2,886	2,426	2,424	2,683	3,281	3,653	4,490	6,235
<b>Inventories</b>	11,441	9,374	8,243	8,831	9,173	8,813	9,170	11,713	14,481	14,771
<b>Goodwill &amp; Int.</b>	561	3,392	3,688	3,703	3,918	4,041	5,476	5,585	6,747	6,544
<b>Total Liabilities</b>	23,558	24,367	22,242	22,588	21,641	21,837	24,772	29,623	33,369	35,158
<b>Accounts Payable</b>	4,513	4,326	3,474	3,606	3,894	3,545	3,746	4,474	6,388	7,803
<b>Long-Term Debt</b>	6,870	5,660	5,877	6,931	7,493	8,388	8,881	9,929	9,539	9,180
<b>Total Equity</b>	20,156	19,575	17,899	17,173	18,313	18,981	19,208	20,000	22,477	24,284
<b>LTD/E Ratio</b>	0.34	0.29	0.33	0.40	0.41	0.44	0.46	0.50	0.42	0.38

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	3.0%	5.1%	4.4%	3.2%	4.0%	4.5%	3.3%	3.8%	5.1%	7.5%
<b>Return on Equity</b>	6.9%	11.3%	9.9%	7.3%	9.0%	9.7%	7.2%	9.0%	12.8%	18.6%
<b>ROIC</b>	4.8%	8.6%	7.5%	5.3%	6.4%	6.8%	5.0%	6.1%	8.7%	13.1%
<b>Shares Out.</b>	659.0	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0
<b>Revenue/Share</b>	135.45	123.78	109.02	105.49	106.34	113.48	114.44	113.90	150.62	180.38
<b>FCF/Share</b>	6.51	6.17	0.93	-12.50	-12.26	-9.92	-11.12	-5.68	9.59	3.83

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

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