General Mills (GIS)

Updated December 21st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	11.6%	**Market Cap:**	$38.8 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	1/9/24
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Dividend Payment Date:**	2/1/24
Dividend Yield:	3.7%	**5 Year Price Target**	$98	**Years Of Dividend Growth:**	4
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

General Mills is a packaged food giant, with more than 100 brands and operations in more than 100 countries. It has a market capitalization of $38.8 billion. General Mills has not cut its dividend for 122 consecutive years. The stock underperformed the market by a wide margin in 2015-2019 due to stagnation of sales amid increased health consciousness of consumers, but it has returned to growth mode in the last four years, mostly thanks to the acquisition of Blue Buffalo and the pandemic, which greatly increased food consumption at home.

In mid-December, General Mills reported (12/20/23) financial results for the second quarter of fiscal 2024. Net sales and organic sales dipped -2% over the prior year's quarter, as price hikes were more than offset by a decline in volumes. Gross margin expanded from 32.7% to 34.4% thanks to price hikes and cost savings and earnings-per-share edged up 1% thanks to a higher gross margin and share repurchases.

General Mills is facing tough comparisons, as the pandemic has subsided. It generates 85% of its sales from at-home food demand. It is also facing high cost inflation, which is likely to persist for a considerable period. Nevertheless, thanks to strong price hikes, it raised its dividend by 9% about five months ago. On the other hand, due to a deceleration in sales momentum, it lowered its guidance for fiscal 2024. It expects flat organic sales (vs. 3%-4% growth previously) and growth of earnings-per-share of 4%-5% (vs. 4%-6% previously). We still expect earnings-per-share of about $4.50.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.83	$2.86	$2.92	$3.08	$3.11	$3.22	$3.61	$3.79	$3.94	$4.30	***$4.50***	***$5.74***
DPS	$1.55	$1.67	$1.78	$1.92	$1.96	$1.96	$1.96	$2.02	$2.04	$2.16	***$2.36***	***$2.76***
Shares[2]	612.3	598.7	596.8	576.9	593.0	605.0	616.1	619.4	604.9	591.0	***580.0***	***550.0***

General Mills has grown its earnings-per-share at a 4.8% average annual rate in the last decade. In recent years, this decelerated, but the company has accelerated again since the onset of the pandemic. We expect approximately 5.0% annual earnings-per-share growth until 2029, mostly thanks to Blue Buffalo. Earnings-per-share will also benefit from the resumption of share repurchases now that the balance sheet has strengthened. Buybacks had paused due to the high debt load caused by the acquisition of Blue Buffalo. Moreover, despite concerns that the tailwind from strong at-home food demand amid the pandemic will fade after the end of the health crisis, management has repeatedly stated that it expects the pandemic to have a permanent boosting effect on at-home food demand.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.8	18.6	20.0	20.5	17.0	14.1	15.0	16.0	16.3	18.5	***14.2***	***17.0***
Avg. Yld.	3.1%	3.1%	3.1%	3.0%	3.7%	4.3%	3.6%	3.3%	3.2%	2.7%	***3.7%***	***2.8%***

[1] Estimated date.
[2] In millions.
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General Mills is trading at a nearly 10-year low price-to-earnings ratio of 14.2, which is lower than its 10-year average price-to-earnings ratio of 17.0. If the stock trades at its average valuation level in five years, it will enjoy a 3.6% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54.8%	58.4%	61.0%	62.3%	63.0%	60.9%	54.3%	53.3%	51.8%	50.2%	***52.4%***	***48.1%***

The strong brands of General Mills provide some competitive advantage but the fierce competition in its business, which caused the company to stagnate for five years (before the pandemic), indicates that this moat is narrow.

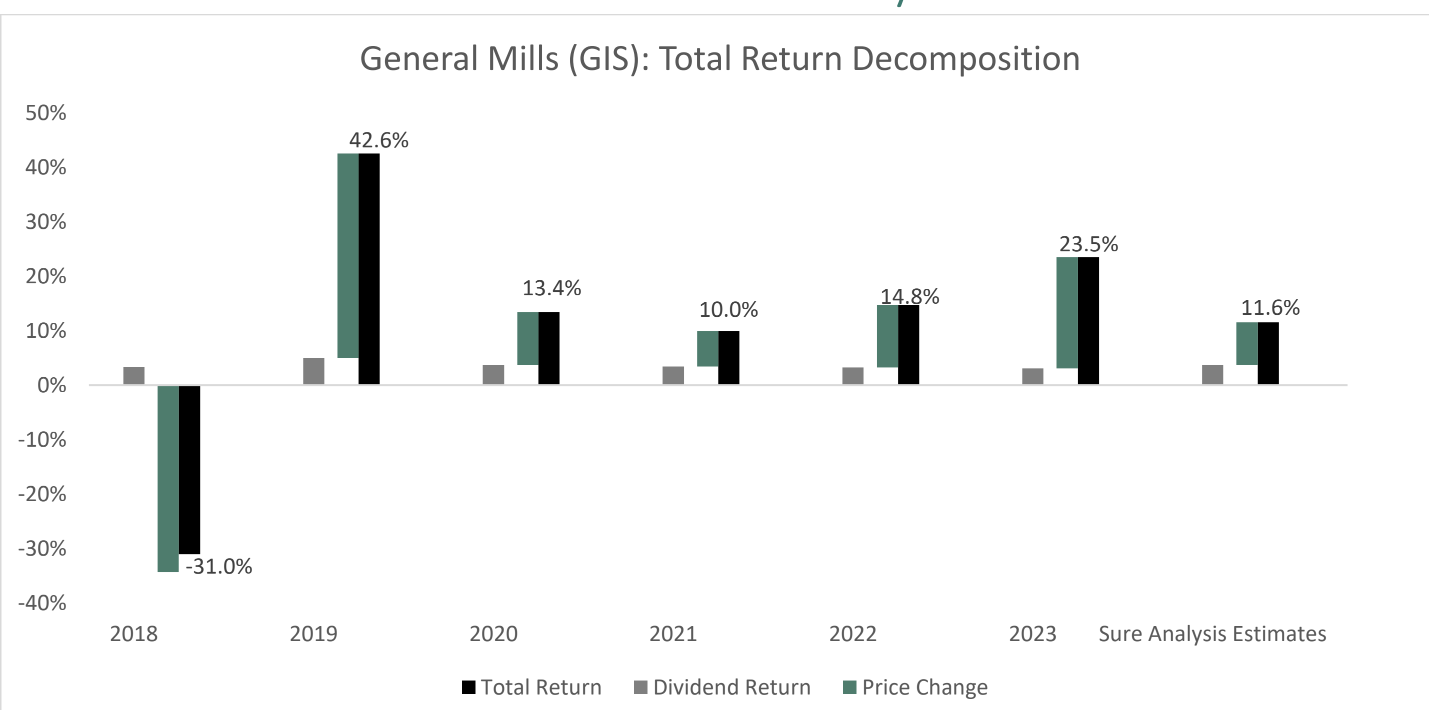
Due to the acquisition of Blue Buffalo, the debt load of General Mills increased materially. In fiscal 2019, interest expense jumped 40% due to this acquisition, from $374 million to $522 million. However, the company has reduced its debt at a fast pace since then and thus its annual interest expense has returned close to pre-acquisition level, at $382 million. Interest expense decreased -10% in 2022 but it edged up 1% in 2023.

Moreover, the stock has proven resilient during recessions and market selloffs because people tend to eat at home more during difficult economic periods. In the Great Recession, while most companies saw their earnings collapse, General Mills grew its earnings-per-share by more than 10% per year from 2007 to 2010. In the fierce coronavirus crisis, General Mills proved its resilience once again, as it posted record earnings in fiscal 2020, 2021 and 2022.

Final Thoughts & Recommendation

General Mills proved its safe-haven nature during the pandemic. Due to the fading tailwind from the pandemic, the stock is currently trading at a nearly 10-year low valuation level. We expect General Mills to offer an 11.6% average annual return over the next five years thanks to 5.0% earnings-per-share growth, its 3.7% dividend and a 3.6% valuation tailwind. We note that the stock has become highly attractive after a long period and rate it as a 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	17,910	17,630	16,563	15,620	15,740	16,865	17,627	18,127	18,993	20,094
Gross Profit	6,370	5,949	5,830	5,568	5,436	5,757	6,130	6,448	6,402	6,546
Gross Margin	35.6%	33.7%	35.2%	35.6%	34.5%	34.1%	34.8%	35.6%	33.7%	32.6%
SG&A Exp.	3,474	3,328	3,119	2,889	2,850	2,936	3,152	3,080	3,147	3,500
D&A Exp.	585	588	608	604	619	620	595	601	570	547
Operating Profit	2,896	2,621	2,711	2,679	2,586	2,821	2,978	3,369	3,255	3,045
Op. Margin	16.2%	14.9%	16.4%	17.2%	16.4%	16.7%	16.9%	18.6%	17.1%	15.1%
Net Profit	1,824	1,221	1,697	1,658	2,131	1,753	2,181	2,340	2,707	2,594
Net Margin	10.2%	6.9%	10.2%	10.6%	13.5%	10.4%	12.4%	12.9%	14.3%	12.9%
Free Cash Flow	1,878	1,830	2,035	1,731	2,218	2,269	3,215	2,452	2,747	2,089
Income Tax	883	587	755	655	57	368	481	629	586	612

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	23,146	21,832	21,712	21,813	30,624	30,111	30,807	31,842	31,090	31,452
Cash & Equivalents	867	334	764	766	399	450	1,678	1,505	569	586
Acc. Receivable	1,484	1,387	1,361	1,430	1,684	1,680	1,615	1,639	1,692	1,683
Inventories	1,559	1,541	1,414	1,484	1,642	1,559	1,426	1,821	1,867	2,172
Goodwill & Int.	13,665	13,552	13,280	13,278	21,510	21,163	21,019	21,213	21,378	21,479
Total Liabilities	16,140	16,439	16,405	17,127	24,132	22,744	22,457	22,069	20,302	20,752
Accounts Payable	1,611	1,684	2,047	2,120	2,746	2,854	3,248	3,654	3,982	4,194
Long-Term Debt	8,786	9,192	8,431	9,482	15,819	14,490	13,540	12,612	11,620	11,706
Total Equity	6,535	4,997	4,930	4,328	6,141	7,055	8,059	9,470	10,542	10,450
LTD/E Ratio	1.34	1.84	1.71	2.19	2.58	2.05	1.68	1.33	1.10	1.12

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.0%	5.4%	7.8%	7.6%	8.1%	5.8%	7.2%	7.5%	8.6%	8.3%
Return on Equity	27.6%	21.2%	34.2%	35.8%	40.7%	26.6%	28.9%	26.7%	27.1%	24.7%
ROIC	11.8%	8.0%	12.0%	11.9%	11.7%	7.9%	10.0%	10.6%	11.9%	11.6%
Shares Out.	612.3	598.7	596.8	576.9	593.0	605.0	616.1	619.4	612.6	601.2
Revenue/Share	27.74	28.49	27.07	26.12	26.87	27.86	28.74	29.28	31.00	33.42
FCF/Share	2.91	2.96	3.33	2.89	3.79	3.75	5.24	3.96	4.48	3.47

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