



Hormel Foods Corporation (HRL)

Updated December 9th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	9.1%	Market Cap:	\$17 B
Fair Value Price:	\$34	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	01/12/24
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	02/15/24
Dividend Yield:	3.6%	5 Year Price Target	\$41	Years Of Dividend Growth:	58
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Hormel Foods was founded in 1891 in Minnesota. Since that time, the company has grown into a \$17 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 58 consecutive years.

Hormel posted fourth quarter and full-year earnings on November 29th, 2023, and results were weaker than expected on both the top and bottom lines. Adjusted earnings-per-share came to 42 cents, missing estimates fairly widely by three cents, or ~7%. Revenue also fell 2.6% year-over-year to \$3.2 billion, missing estimates by \$70 million, or ~2%.

Adjusted operating income came to \$313 million, or 9.8% of revenue. Adjusted before-tax operating earnings came to \$289 million. Cash flow from operations came to \$319 million.

Hormel boosted its dividend by 2.7% to a new payout of \$1.13 per share annually, its 58th consecutive annual dividend increase.

We see \$1.55 in earnings-per-share for this year based on weak 2023 results. The company continues to struggle with volumes, and until that changes, we believe meaningful earnings growth will be challenging.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.12	\$1.32	\$1.64	\$1.57	\$1.86	\$1.74	\$1.66	\$1.73	\$1.82	\$1.61	\$1.55	\$1.89
DPS	\$0.40	\$0.50	\$0.58	\$0.68	\$0.75	\$0.84	\$0.93	\$0.98	\$1.04	\$1.10	\$1.13	\$1.37
Shares¹	527	527	528	528	529	544	548	542	546	547	548	551

Hormel's growth was once better than it is now, as we've seen a handful of years in the recent past where earnings were lower year-over-year. 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 we maintain our growth estimate because the base of earnings for 2024 is lower than trend.

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 2024 as the volatility of pricing and input costs of 2022/2023 begin to normalize.

¹ 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.3	21.6	23.4	21.8	19.3	24.2	28.4	26.9	25.0	20.2	20.0	22.0
Avg. Yld.	1.7%	1.8%	1.5%	2.0%	2.1%	2.0%	2.0%	2.1%	2.3%	3.4%	3.6%	3.3%

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 20 now and we believe it could move higher over time towards our fair value estimate of 22 times earnings. That works out to a small tailwind to total returns over the next five years as the stock is now under 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 lower yield five years from now as the stock's valuation could move up.

Hormel boosted its dividend once more at the beginning of fiscal 2024, this time adding just under 3% to its payout, marking its 58th consecutive year of dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	35%	33%	41%	40%	48%	56%	57%	57%	68%	73%	73%

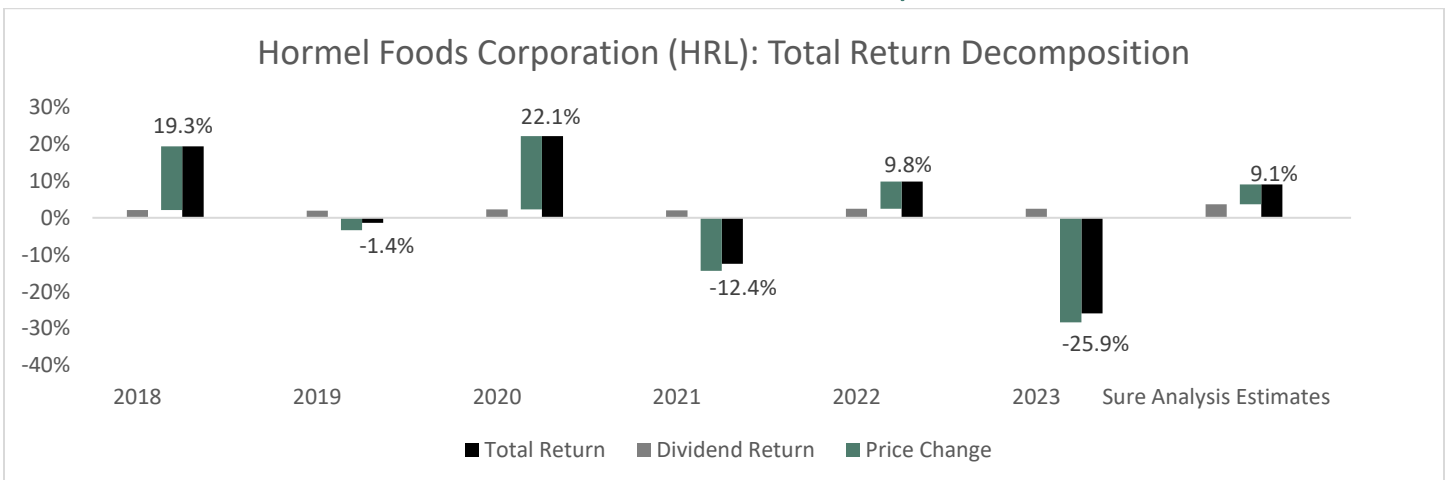
Hormel's payout ratio is just over 70% of earnings, and we expect that it will remain this way for the foreseeable future. Management is certainly committed to the dividend, but it wants to acquire growth as well, which uses cash.

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 undervalued today in our view, given the valuation improved 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 lower, and growth still an issue, we forecast 9.1% total annual returns for Hormel. These could accrue from 4% growth, with the 3.6% yield and 1.9% valuation tailwind. We're reiterating Hormel at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9316	9264	9523	9168	9546	9497	9,608	11,386	12,459	12,110
Gross Profit	1565	1809	2158	1997	1979	1885	1,826	1,928	2,165	2,000
Gross Margin	16.8%	19.5%	22.7%	21.8%	20.7%	19.8%	19.0%	16.9%	17.4%	16.5%
SG&A Exp.	651	744	872	759	841	728	761	853	879	942
D&A Exp.	130	133	132	131	162	165	206	228	263	253
Operating Profit	914	1065	1286	1237	1138	1157	1,065	1,075	1,285	1,058
Operating Margin	9.8%	11.5%	13.5%	13.5%	11.9%	12.2%	11.1%	9.4%	10.3%	8.7%
Net Profit	603	686	890	847	1012	979	908	909	1,000	794
Net Margin	6.5%	7.4%	9.3%	9.2%	10.6%	10.3%	9.5%	8.0%	8.0%	6.6%
Free Cash Flow	588	848	784	813	852	629	761	770	856	778
Income Tax	316	370	427	432	169	231	206	217	278	221

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5456	6140	6370	6976	8142	8109	9,908	12,696	13,307	13,449
Cash & Equivalents	334	347	415	444	459	673	1,714	614	982	737
Accounts Receivable	610	606	591	618	600	574	702	896	868	817
Inventories	1055	993	986	921	964	1042	1,073	1,369	1,716	1,680
Goodwill & Int. Ass.	1781	2527	2738	3147	3921	3516	3,689	6,751	6,729	6,686
Total Liabilities	1844	2138	1919	2036	2537	2183	3,478	5,718	5,767	5,710
Accounts Payable	484	495	482	553	619	590	645	793	817	771
Long-Term Debt	250	435	250	250	625	250	1,304	3,324	3,299	3,309
Shareholder's Equity	3606	3998	4448	4936	5601	5921	6,426	6,973	7,535	7,735
LTD/E Ratio	0.07	0.11	0.06	0.05	0.11	0.04	0.20	0.48	0.44	0.43

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.6%	11.8%	14.2%	12.7%	13.4%	12.0%	10.1%	8.0%	7.7%	5.9%
Return on Equity	17.4%	18.0%	21.1%	18.0%	19.2%	17.0%	14.7%	13.6%	13.8%	10.4%
ROIC	16.2%	16.5%	19.5%	17.1%	17.7%	15.8%	13.1%	10.1%	9.5%	7.3%
Shares Out.	527	527	528	528	529	544	548	542	550	549
Revenue/Share	17.24	17.12	17.56	17.00	17.55	17.42	17.58	20.79	22.67	22.06
FCF/Share	1.09	1.57	1.45	1.51	1.57	1.15	1.39	1.41	1.56	1.42

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

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