



The Kraft-Heinz Company (KHC)

Updated February 14th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	8.7%	Market Cap:	\$42B
Fair Value Price:	\$40	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/07/24
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	03/29/24
Dividend Yield:	4.7%	5 Year Price Target	\$44	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Kraft-Heinz is a processed food and beverages company which owns a product portfolio that includes food products such as condiments, sauces, cheese & dairy, frozen & chilled meals, and infant diet & nutrition. The company was created in 2015 in a merger between Kraft Food Group and H. J. Heinz Company, orchestrated by Warren Buffett's Berkshire Hathaway and 3G Capital. Kraft-Heinz is headquartered in Chicago, IL.

The Kraft-Heinz Company reported its fourth quarter earnings results on February 14. The company reported that its revenues totaled \$6.9 billion during the quarter, which was down 7% compared to the revenues that Kraft-Heinz generated during the previous year's period. This was slightly worse than what the analyst community had expected. Kraft-Heinz' organic sales were down by 1%. Organic sales were better than reported sales due to the impact of a 53rd week during the previous year. Forex headwinds and portfolio changes due to divestments that Kraft-Heinz made also impacted the comparison to some degree.

Kraft-Heinz generated earnings-per-share of \$0.78 during the fourth quarter, which beat the consensus estimate. Earnings-per-share were down 8% versus the previous year's quarter, which was a weaker result compared to the previous quarter, when earnings-per-share were up year-over-year. Kraft-Heinz' management stated that they see organic net sales rising by around 1% in 2024, while management is forecasting earnings-per-share to come in between \$3.01 and \$3.07 for the current year. Earnings-per-share are thus expected to grow by around 2% this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	\$2.19	\$3.33	\$3.55	\$3.51	\$2.85	\$2.88	\$2.93	\$2.78	\$2.98	\$3.04	\$3.36
DPS	---	\$1.13	\$2.35	\$2.45	\$2.50	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60
Shares¹	---	1210	1226	1228	1220	1225	1230	1220	1230	1230	1230	1230

The Kraft-Heinz Company does not have a long history in the form it currently exists in, which is why we are not able to provide much data. The two companies that merged to create Kraft-Heinz both have a long history, though. As a food and beverages company, Kraft-Heinz is not operating in a high-growth industry. The company therefore will, in all likelihood, not be able to generate enormous growth rates going forward. Even in a low-growth industry companies can generate positive returns, though. In Kraft-Heinz' case there are several avenues for growth the company can pursue.

The first factor is international expansion. Market penetration in many emerging countries is not very high. These markets are huge, and they are growing relatively quickly. Due to steadily rising disposable incomes in countries such as China and India, more consumers have the means to purchase consumer goods from Western companies such as Kraft-Heinz, which results in a positive outlook for Kraft-Heinz' international business. Another factor for earnings growth is margin expansion, as Kraft-Heinz' management is experienced in cutting costs. We believe that margins will remain high, and they could rise further over the coming years. Finally, Kraft-Heinz should benefit from debt reduction that results in declining interest expenses. On the other hand, changing consumer behavior is a headwind for Kraft-Heinz, mainly in the US, which is why we believe that earnings will not grow at a rapid pace in future years.

¹In 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	---	18.5	24.9	24.2	12.3	11.2	11.8	12.3	14.7	12.8	11.2	13.0
Avg. Yld.	---	2.8%	2.8%	2.9%	4.9%	5.0%	4.7%	4.4%	3.9%	4.2%	4.7%	3.7%

Kraft-Heinz' shares traded at quite high valuations during the first three years since the company's IPO. This was not justified, we believe, as Kraft-Heinz has never been a high-growth company, or a company that deserved a 20+ earnings multiple. The impairment charges over the last couple of years have made investors more wary about the company's long-term outlook. Our fair value earnings multiple is not overly high, but we believe that there is some upside potential for shares from the current level. The dividend yield is at a very solid level of close to 5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	51.6%	70.6%	69.1%	71.2%	56.1%	55.6%	54.6%	57.6%	53.7%	52.6%	47.7%

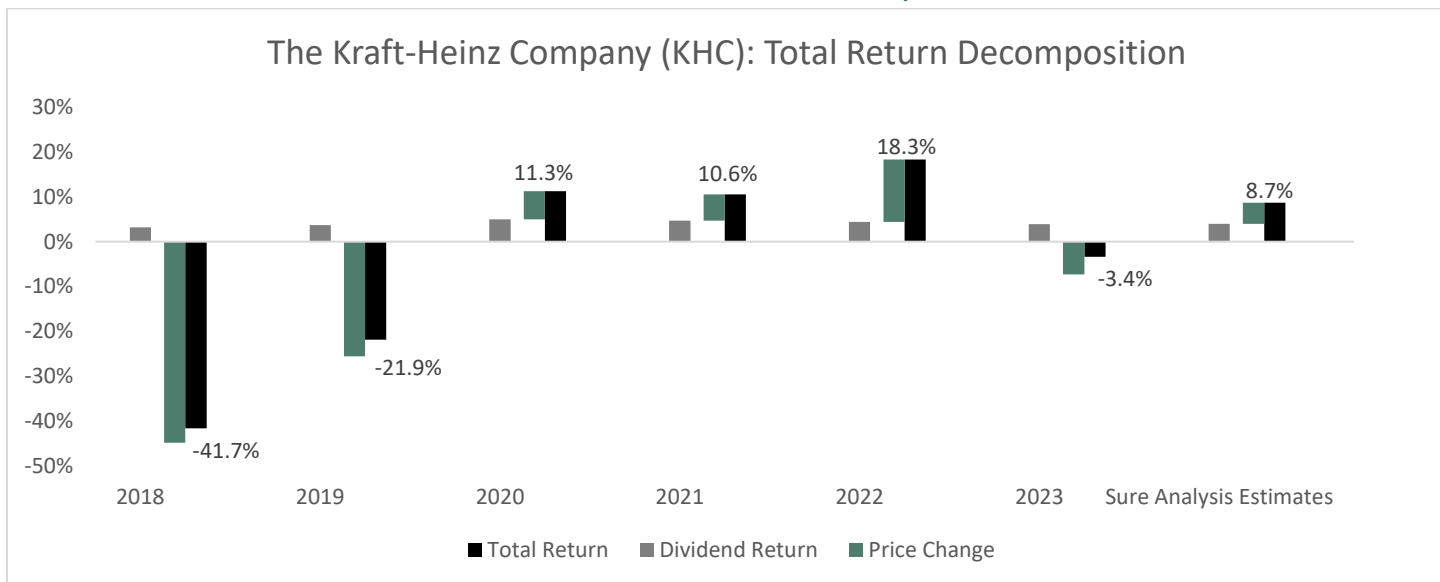
Kraft-Heinz does not have a long dividend history, and after the recent dividend cut, even its short dividend history is not really convincing. The dividend looks sustainable at the current level, another cut thus seems unlikely. We are forecasting the payout ratio to decline over time as earnings should rise in the long run.

Kraft-Heinz' brands are strong and recognized by most consumers, and demand for food is not cyclical or dependent on economic conditions. Kraft-Heinz therefore should be able to remain profitable in economic downturns, as do most consumer staples companies. Kraft-Heinz' brands function as a competitive advantage. Shifting consumer preferences are a headwind for Kraft-Heinz, though, as more consumers choose healthier options such as non-processed foods.

Final Thoughts & Recommendation

Kraft-Heinz' shares have moved mostly sideways since our last update. We believe that, thanks to international growth and price increases, the company should be able to generate some earnings growth in the long run, but Kraft-Heinz will never turn into a high-growth company. Shares are trading slightly below our fair value estimate right now. Due to a solid but not great total return forecast, we rate the stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	18,205	18,338	26,300	26,076	26,268	24,977	26,185	26,042	26,485	26,640
Gross Profit	4,845	5,761	9,146	9,033	8,921	8,147	9,177	8,682	8,122	8,926
Gross Margin	26.6%	31.4%	34.8%	34.6%	34.0%	32.6%	35.0%	33.3%	30.7%	33.5%
SG&A Exp.	2,956	3,122	3,527	2,927	3,150	3,006	3,449	3,374	3,440	3,759
D&A Exp.	385	740	1,337	1,031	983	994	969	910	933	961
Operating Profit	1,889	2,639	5,619	6,106	5,771	5,141	5,728	5,308	4,682	5,167
Op. Margin	10.4%	14.4%	21.4%	23.4%	22.0%	20.6%	21.9%	20.4%	17.7%	19.4%
Net Profit	1,043	634	3,596	10,941	(10,192)	1,935	356	1,012	2,363	2,855
Net Margin	5.7%	3.5%	13.7%	42.0%	-38.8%	7.7%	1.4%	3.9%	8.9%	10.7%
Free Cash Flow	1,485	624	1,401	(693)	1,748	2,784	4,333	4,459	1,553	2,963
Income Tax	363	366	1,333	(5,482)	(1,067)	728	669	684	598	787

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	23	123	120	120	103	101	100	93	91	90
Cash & Equivalents	1,293	4,837	4,204	1,629	1,130	2,279	3,417	3,445	1,040	1,400
Accounts Receivable	1,080	1,454	898	1,274	2,129	1,973	2,063	1,957	2,120	2,112
Inventories	1,775	2,618	2,684	2,760	2,667	2,721	2,773	2,729	3,651	3,614
Goodwill & Int. (\$B)	14	105	103	104	86	84	80	75	73	73
Total Liabilities	18,582	56,737	62,906	54,016	51,683	49,701	49,587	43,942	41,643	40,617
Accounts Payable	1,537	2,844	3,996	4,362	4,153	4,003	4,304	4,753	4,848	4,627
Long-Term Debt	10,032	25,234	32,404	31,503	31,168	29,244	28,306	21,815	20,070	20,032
Shareholder's Equity	4,365	57,685	57,358	65,863	51,657	51,623	50,103	49,298	48,678	49,526
LTD/E Ratio	2.30	0.38	0.56	0.48	0.60	0.57	0.57	0.44	0.41	0.40

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.5%	0.9%	3.0%	9.1%	-9.1%	1.9%	0.4%	1.0%	2.6%	3.2%
Return on Equity	21.8%	1.8%	5.8%	17.7%	-17.3%	3.7%	0.7%	2.0%	4.8%	5.8%
ROIC	7.1%	1.2%	4.0%	11.7%	-11.3%	2.4%	0.4%	1.4%	3.4%	4.1%
Shares Out.	---	1210	1226	1228	1220	1225	1230	1220	1230	1230
Revenue/Share	30.44	23.33	21.45	21.23	21.55	20.41	21.32	21.28	21.45	21.57
FCF/Share	2.48	0.79	1.14	(0.56)	1.43	2.27	3.53	3.64	1.26	2.40

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

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