



# The Kroger Co. (KR)

Updated March 12<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$56	<b>5 Year CAGR Estimate:</b>	6.8%	<b>Market Cap:</b>	\$40 B
<b>Fair Value Price:</b>	\$55	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	05/10/24
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.2%	<b>Dividend Payment Date<sup>1</sup>:</b>	06/03/24
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$70	<b>Years Of Dividend Growth:</b>	17
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Founded in 1883 and headquartered in Cincinnati, Ohio, Kroger is one of the largest retailers in the U.S. The company has nearly 2,800 retail stores under two dozen banners, along with fuel centers, pharmacies, and jewelry stores in 35 states. The \$40 billion company serves about 11 million customers a day.

On October 14<sup>th</sup>, 2022, Kroger announced that it had entered into a definitive merger agreement with Albertsons Companies, Inc. (NYSE: ACI). Kroger will purchase all of Albertsons' outstanding shares at \$34.10 per share, for a total value of roughly \$24.6 billion. In an effort to garner the necessary approvals and ease regulators, Kroger and Albertsons announced a divestiture plan in which it will sell 413 stores, 8 distribution centers, 2 offices, and 5 private label brands to C&S Wholesale Grocers, LLC for roughly \$1.9 billion.

In February 2024, the FTC sued to block the proposed merger, and a trial has been set for August 2024.

On March 7<sup>th</sup>, 2024, Kroger reported fourth quarter 2023 results for the period ending February 3<sup>rd</sup>, 2024. (Kroger's fiscal year ends the Saturday closest January 31<sup>st</sup>.) For the quarter, Kroger reported \$37.1 billion in sales, up 6.6% compared to Q4 2022. Excluding fuel, and the 53<sup>rd</sup> week in FY 2023 which added \$2.7 billion to results, sales decreased 0.5% compared to the year ago period. Adjusted earnings-per-share equaled \$1.34 compared to \$0.99 in 4Q22.

Kroger provided fiscal 2024 guidance. The company expects identical sales growth without fuel to be in the range of 0.25% to 1.75% and adjusted earnings-per-share of \$4.30 to \$4.50.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.76	\$2.06	\$2.12	\$2.04	\$2.11	\$2.19	\$3.47	\$3.68	\$4.23	\$4.76	<b>\$4.40</b>	<b>\$5.62</b>
<b>DPS</b>	\$0.35	\$0.41	\$0.47	\$0.50	\$0.55	\$0.60	\$0.68	\$0.78	\$0.94	\$1.10	<b>\$1.16</b>	<b>\$1.63</b>
<b>Shares<sup>2</sup></b>	974	967	924	870	798	788	758	726	716	719	<b>720</b>	<b>690</b>

Kroger faced challenges growing its earnings-per-share significantly in the 2015 through 2019 timeframe due to the fierce competition in the retail sector. Prior to 2020, growth was more difficult to achieve, but the company has performed very well since. In the last nine and five years, Kroger increased its EPS at a 12% and 15% CAGR, respectively. Of course, that has changed dramatically as of late. The COVID-19 pandemic, which has plagued many businesses, has been a tailwind for groceries and Kroger in particular. To this point, earnings were significantly higher in 2020, marking a banner year. Since then, Kroger has built on this momentum, earning record results each year. In 2022, in particular, the company executed their Leading with Fresh and Accelerating with Digital strategies platforms, increasing delivery sales. The company has reduced its share count by 3.3% over the last decade. However, Kroger's share repurchase program was recently put on pause, as the company prioritizes de-leveraging, partly due to the proposed merger with Albertsons. We are estimating \$4.40 in earnings-per-share this year to go along with a 5.0% intermediate-term growth rate.

<sup>1</sup> Estimate

<sup>2</sup> 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.



# The Kroger Co. (KR)

Updated March 12<sup>th</sup>, 2024 by Quinn Mohammed

The announced merger with Albertsons is also a major catalyst, as this will see the combined company operating more than 4,996 stores, 66 distribution centers, 52 manufacturing plants, 3,972 pharmacies and 2,015 fuel centers. This behemoth of a corporation would operate across 48 states and the District of Columbia.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	14.5	18.2	16.4	12.8	13.2	11.6	9.4	10.6	11.6	9.7	12.6	12.5
Avg. Yld.	1.4%	1.1%	1.3%	1.9%	2.0%	2.4%	2.1%	1.9%	1.8%	2.2%	2.1%	2.3%

During the last decade, shares of Kroger have traded hands with an average P/E ratio of nearly 13 times earnings. We peg fair value at just below this mark. With shares trading at 12.6 times expected earnings, this implies the potential for a small valuation headwind.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	20%	22%	25%	26%	27%	20%	21%	22%	23%	26%	29%

Although the large scale and reach of Kroger offers some economies of scale, and thus a competitive advantage, competition has heated up more than ever in the retail sector. As a result, Kroger lacks a meaningful moat.

Still, while most companies saw their earnings collapse during the Great Recession, Kroger exhibited exceptional resilience posting earnings-per-share of \$0.95, \$0.87, \$0.87, and \$1.00 during the 2008 through 2011 stretch. Kroger always operates at a razor-thin margin, between 1% and 3%, which allows it to keep competitors at bay but also means that the stock is extremely sensitive to competitive pricing pressures.

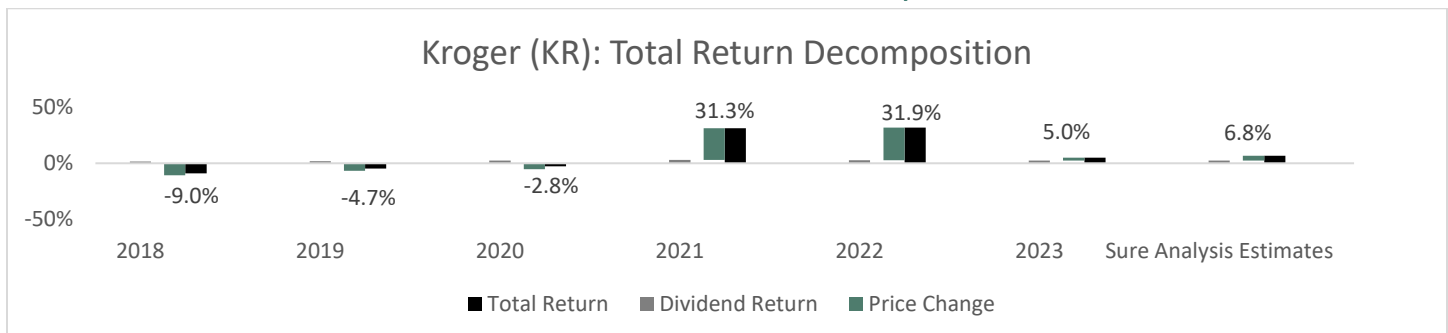
Kroger has been prudent about its dividend, with a payout ratio sticking around the 20% to 30% range. The larger capital return focus has been, and likely will continue to be, on share repurchases. We believe this is prudent considering the competitive landscape of Kroger's industry.

At the end of quarter, Kroger held \$235 million in cash, \$13.0 billion in current assets (55% of which is inventory) and \$50.5 billion in total assets against \$16.1 billion in current liabilities and \$38.9 billion in total liabilities. Long-term debt stood at \$12.0 billion.

## Final Thoughts & Recommendation

Shares of Kroger have increased by 21% year-to-date, which compares favorably to the 9% gain of the S&P 500. Kroger has proved to be a strong and resilient business, and results improved dramatically amid the pandemic. We forecast the potential for 6.8% annual total returns, stemming from 5.0% growth, a 2.1% starting yield, and a -0.2% valuation headwind. Shares earn a hold rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# The Kroger Co. (KR)

Updated March 12<sup>th</sup>, 2024 by Quinn Mohammed

## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue (\$B)</b>	98.38	108.47	109.83	115.34	123.28	121.85	122.29	132.50	137.89	150.04
<b>Gross Profit</b>	20,237	22,953	24,334	25,835	27,469	26,749	26,992	30,901	30,349	33360
<b>Gross Margin</b>	20.6%	21.2%	22.2%	22.4%	22.3%	22.0%	22.1%	23.3%	22.0%	22.2%
<b>SG&amp;A Exp.</b>	15,809	17,868	18,669	20,043	22,421	21,670	22,092	25,374	24,048	861
<b>D&amp;A Exp.</b>	1,703	1,948	2,089	2,340	2,436	2,465	3,289	3,373	3,429	3750
<b>Operating Profit</b>	2,725	3,137	3,576	3,452	2,612	2,614	2,251	2,780	3,477	3126
<b>Op. Margin</b>	2.8%	2.9%	3.3%	3.0%	2.1%	2.1%	1.8%	2.1%	2.5%	2.1%
<b>Net Profit</b>	1,519	1,728	2,039	1,975	1,907	3,110	1,659	2,585	1,655	2164
<b>Net Margin</b>	1.5%	1.6%	1.9%	1.7%	1.5%	2.6%	1.4%	2.0%	1.2%	1.4%
<b>Free Cash Flow</b>	1,243	1,384	1,568	573	604	1,197	1,536	3,950	3,576	2884
<b>Income Tax</b>	751	902	1,045	957	-405	900	469	782	385	667

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	29,281	30,497	33,897	36,505	37,197	38,118	45,256	48,662	49,086	50520
<b>Cash &amp; Equivalents</b>	401	268	277	322	347	429	399	1,687	1,821	1883
<b>Acc. Receivable</b>	1,116	1,266	1,734	1,649	1,637	1,589	1,706	1,781	1,828	2136
<b>Inventories</b>	5,651	5,688	6,168	6,561	6,533	6,846	7,084	7,063	6,783	7105
<b>Goodwill &amp; Int.</b>	2,837	3,061	3,777	4,184	4,025	4,345	4,142	4,073	4,018	3815
<b>Total Liabilities</b>	23,886	25,055	27,099	29,795	30,292	30,283	36,683	39,112	39,657	38920
<b>Accounts Payable</b>	4,881	5,052	5,728	5,818	5,858	6,059	6,349	6,679	7,117	10400
<b>Long-Term Debt</b>	11,310	11,597	12,079	14,077	15,589	14,351	13,256	12,410	11,745	12230
<b>Total Equity</b>	5,384	5,412	6,820	6,698	6,931	7,886	8,602	9,576	9,452	11600
<b>LTD/E Ratio</b>	2.10	2.14	1.77	2.10	2.25	1.82	1.54	1.30	1.24	1.05

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	5.6%	5.8%	6.3%	5.6%	5.2%	8.3%	4.0%	5.5%	3.4%	4.3%
<b>Return on Equity</b>	31.7%	32.0%	33.3%	29.2%	28.0%	42.0%	20.1%	28.4%	17.4%	20.0%
<b>ROIC</b>	10.2%	10.2%	11.4%	10.0%	8.8%	13.9%	7.5%	11.8%	7.7%	9.6%
<b>Shares Out.</b>	974	967	924	870	798	788	758	754	754	725
<b>Revenue/Share</b>	94.59	109.23	112.07	120.39	136.37	148.96	151.91	169.65	182.88	206.95
<b>FCF/Share</b>	1.20	1.39	1.60	0.60	0.67	1.46	1.91	5.06	4.74	3.98

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.