



# Archer-Daniels-Midland (ADM)

Updated August 10<sup>th</sup>, 2024 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$58	<b>5 Year CAGR Estimate:</b>	11.4%	<b>Market Cap:</b>	\$27.9 B
<b>Fair Value Price:</b>	\$77	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	08/21/24
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.6%	<b>Dividend Payment Date:</b>	09/11/24
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$89	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<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 \$27.9 billion. Archer-Daniels-Midland's businesses include processing cereal grains, oilseeds, and agricultural storage and transportation.

Archer-Daniels-Midland reported its second-quarter results for Fiscal Year (FY)2024 on July 30<sup>th</sup>, 2024. The company recorded net earnings of \$486 million, with adjusted net earnings at \$508 million. Earnings before taxes were \$596 million, while adjusted segment operating profit reached \$1,021 million. Despite challenging market conditions, ADM's Chair and CEO, Juan Luciano, expressed confidence in the company's ability to achieve its 2024 priorities and strategic initiatives. The Ag Services & Oilseeds segment was impacted by large South American crops and changes in farmer selling behaviors, but improvements in other segments like Carbohydrate Solutions and Nutrition showed solid performance.

In the second quarter of 2024, ADM's earnings before taxes decreased by 47% compared to the previous year, largely due to lower pricing and higher corporate costs. The company's adjusted segment operating profit also declined by 37% year-over-year. For the first half of 2024, earnings before taxes were down 41%, with adjusted segment operating profit falling by 30%. These declines were driven by lower margins, particularly in the Ag Services & Oilseeds and Nutrition segments, as well as higher costs and unplanned downtimes. However, volume improvements and share repurchases provided some positive impact on earnings per share.

Looking ahead, ADM remains confident in its full-year expectations, supported by anticipated improvements in margins, particularly in crush and ethanol. The company continues to focus on operational excellence and strategic priorities while navigating uncertainties in the external environment. ADM affirmed its guidance for adjusted earnings per share, expecting them to range between \$5.25 and \$6.25 for the full year 2024.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.20	\$2.55	\$2.16	\$2.13	\$3.50	\$3.24	\$3.59	\$5.19	\$7.85	\$6.98	<b>\$5.49</b>	<b>\$6.36</b>
<b>DPS</b>	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.44	\$1.48	\$1.60	\$1.80	<b>\$2.00</b>	<b>\$2.32</b>
<b>Shares<sup>1</sup></b>	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0	542.0	<b>542.0</b>	<b>542.0</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. Unlike other enterprises that thrive on increased consumer spending during prosperous periods, ADM's revenue doesn't surge

<sup>1</sup> Shares in Millions

Disclosure: This analyst is long the security discussed in this research report.



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significantly due to the relatively stable demand for food. Consequently, while a robust economy offers substantial advantages to many firms, it doesn't serve as a significant tailwind for Archer-Daniels-Midland.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.5	15.4	18.8	20.1	14.3	17.1	14.8	13.0	11.8	10.3	10.6	14.0
Avg. Yld.	2.1%	2.4%	3.0%	3.0%	2.9%	3.1%	3.3%	2.2%	1.7%	2.5%	3.4%	2.6%

Archer-Daniels-Midland has been valued at a price-to-earnings multiple of 14.9x 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 undervalued, with a current PE of 10.6x based on 2024 expected earnings of \$5.49. Also, investors get an above-average dividend yield of 3.4% at current prices.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30.0%	43.9%	55.6%	60.1%	38.3%	43.2%	40.1%	28.5%	20.4%	25.8%	36%	36%

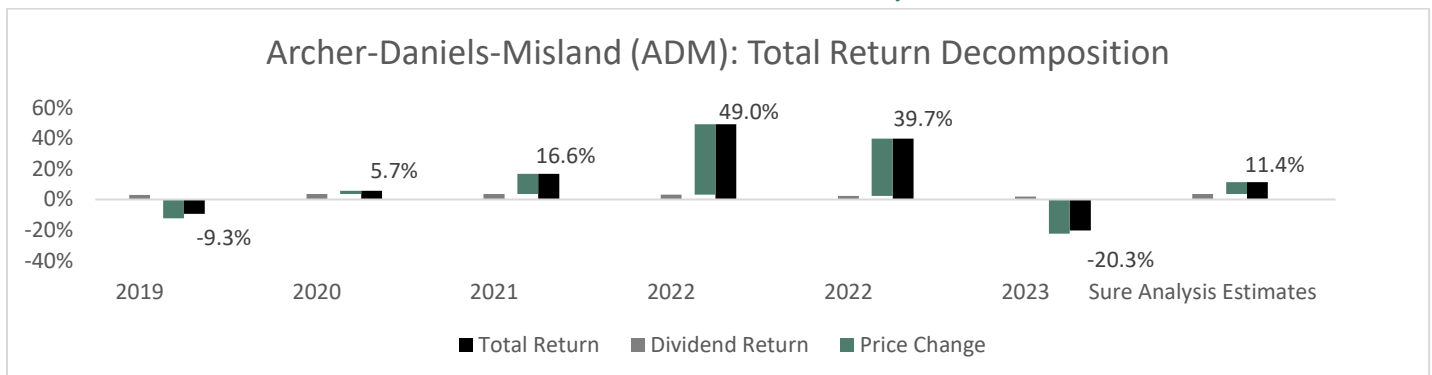
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's earnings-per-share solid growth, the dividend payout ratio declined considerably to 38% in 2018. The dividend payout ratio is not 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 51 consecutive years and has a 5-year dividend growth rate of 7.4%. 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 0.5. 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 \$77. The total return outlook is 11.4% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	81,201	67,702	62,346	60,828	64,341	64,656	64,355	85,249	101,556	93,940
<b>Gross Profit</b>	4,768	3,966	3,618	3,518	4,181	4,147	4,453	5,987	7,570	7,513
<b>Gross Margin</b>	5.9%	5.9%	5.8%	5.8%	6.5%	6.4%	6.9%	7.0%	7.5%	8.0%
<b>SG&amp;A Exp.</b>	1,933	1,985	1,981	1,978	2,165	2,493	2,687	2,994	3,358	3,456
<b>D&amp;A Exp.</b>	894	882	900	924	941	993	976	996	1,028	1,059
<b>Operating Profit</b>	2,835	1,981	1,637	1,540	2,016	1,654	1,766	2,993	4,212	4,057
<b>Op. Margin</b>	3.5%	2.9%	2.6%	2.5%	3.1%	2.6%	2.7%	3.5%	4.1%	4.3%
<b>Net Profit</b>	2,248	1,849	1,279	1,595	1,810	1,379	1,772	2,709	4,340	3,483
<b>Net Margin</b>	2.8%	2.7%	2.1%	2.6%	2.8%	2.1%	2.8%	3.2%	4.3%	3.7%
<b>Free Cash Flow</b>	4,049	580	-7,390	-7,015	-5,626	-6,280	-3,209	5,426	2,159	2,966
<b>Income Tax</b>	877	438	534	7	245	209	101	578	868	828

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	43,997	40,157	39,769	39,963	40,833	43,997	49,719	56,136	59,774	54,630
<b>Cash &amp; Equivalents</b>	1,099	910	619	804	1,997	852	666	943	1,037	1,368
<b>Acc. Receivable</b>	4,236	2,886	2,426	2,424	2,683	3,281	3,653	4,490	6,235	5,284
<b>Inventories</b>	9,374	8,243	8,831	9,173	8,813	9,170	11,713	14,481	14,771	11,960
<b>Goodwill &amp; Int.</b>	3,392	3,688	3,703	3,918	4,041	5,476	5,585	6,747	6,544	6,341
<b>Total Liabilities</b>	24,367	22,242	22,588	21,641	21,837	24,772	29,623	33,369	35,158	30,170
<b>Accounts Payable</b>	4,326	3,474	3,606	3,894	3,545	3,746	4,474	6,388	7,803	6,313
<b>Long-Term Debt</b>	5,660	5,877	6,931	7,493	8,388	8,881	9,929	9,539	9,180	8,365
<b>Total Equity</b>	19,575	17,899	17,173	18,313	18,981	19,208	20,000	22,477	24,284	24,130
<b>LTD/E Ratio</b>	0.29	0.33	0.40	0.41	0.44	0.46	0.50	0.42	0.38	0.35

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	5.1%	4.4%	3.2%	4.0%	4.5%	3.3%	3.8%	5.1%	7.5%	6.1%
<b>Return on Equity</b>	11.3%	9.9%	7.3%	9.0%	9.7%	7.2%	9.0%	12.8%	18.6%	14.2%
<b>ROIC</b>	8.6%	7.5%	5.3%	6.4%	6.8%	5.0%	6.1%	8.7%	13.1%	10.5%
<b>Shares Out.</b>	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0	542.0
<b>Revenue/Share</b>	123.78	109.02	105.49	106.34	113.48	114.44	113.90	150.62	180.38	173.31
<b>FCF/Share</b>	6.17	0.93	-12.50	-12.26	-9.92	-11.12	-5.68	9.59	3.83	5.47

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

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