Fresh Del Monte Produce Inc. (FDP)

Updated September 5th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$1.41 B
Fair Value Price:	$35	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/14/2024[1]
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	12/09/2024[2]
Dividend Yield:	3.3%	**5 Year Price Target**	$39	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Fresh Del Monte Produce Inc. (FDP) is the leading global producer, marketer, and distributor of fresh and fresh-cut fruit and vegetables. Its operations began way back in 1886. It provides fresh produce to a diversified customer base operating retail, wholesale, and food service outlets. With the competitive position acquired in the sector, backed by its vast supply chain and brand recognition, it has a considerable market share in the fresh produce industry. It offers bananas, pineapples, melons, and prepared foods. The company has geographic footprints in North America, Europe, Asia, and the Middle East.

On August 1st, 2024, the company announced Q2 2024 results, reporting GAAP EPS of $1.06, beating the markets' estimates by $0.46. The company reported revenues of $1.13 billion, down 4.2% year-over-year.

This was because of the decline in banana sales, while the rest of the products marked higher per-unit selling prices, added to fresh and value-added products. Gross profit for the quarter reached $113.2 million from $116.8 million, with the event affected by weather conditions in both countries where the company operates and a rise in production costs. However, gross margins were firm at 9.9% and flat compared with the prior-year period.

Q2 2024 operating income reached $68.2 million, versus $72.1 million in Q2 23, partly due to lower gross profit and a smaller gain on asset sales. Despite challenges, Fresh Del Monte said net income grew from $47.7 million to $53.6 million, based in part on foreign currency gains and insurance recoveries. Fresh Del Monte continued to focus on value-added products and operational efficiency, while the decrease in long-term debt decreased by 29%, which reflects positive strategic developments that place the firm in a better position for future growth.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.53	$1.17	$4.33	$2.39	-$0.45	$1.37	$1.03	$1.68	$2.06	-$0.24	***$2.33***	***$2.57***
DPS	$0.50	$0.50	$0.58	$0.60	$0.45	$0.24	$0.30	$0.50	$0.60	$0.75	***$1.00***	***$1.47***
Shares[3]	56.3	53.2	52.0	50.6	48.6	48.4	47.7	47.7	47.9	48.0	***47.2***	***43.2***

Long-term trends in the fresh produce sector have pointed toward a stable growth in demand resulting from increased health awareness and rising preferences for fresh, natural foods. The average yearly growth rate in the past ten years was 3% to 4%. The growth is expected to be very strong in the years ahead, with a CAGR of around 4% to 5% from 2023 to 2030. In that regard, broad trends currently affecting the world are growing demands for plant-based diets, technological innovation in farming practices, and rising global populations. Fresh Del Monte Produce Inc. can hook into these positive trends by using an already established position in the international markets and continued innovation in the fresh produce sector.

Therefore, despite the declining performance in the last quarter, we apply a conservative growth of 2% for the next five years, slower than the industry's average, and we have used the midpoint of analysts' EPS estimate at $2.33. Lastly, we

[1] The ex-dividend date is estimated based on historical data.
[2] The dividend payment date is estimated based on historical data.
[3] Shares in millions.

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have assumed an 8.0% dividend growth, slightly lower than the company's 10-year average of nearly 11%, resulting in a dividend payment of $1.47 in 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.9	33.3	12.1	21.7	-89.0	21.8	24.6	17.6	13.0	-112.1	***12.9***	***15.0***
Avg. Yld.	1.7%	1.3%	1.1%	1.2%	1.1%	0.8%	1.2%	1.7%	2.2%	2.8%	***3.3%***	***3.8%***

FDP currently trades at a forward P/E of 12.9, significantly below its long-term normalized average of 19.5. We believe the company deserves a higher P/E ratio at 15.0 once it returns to the growth track. Finally, we expect the company to be consistent with its historical dividend payout policy, resulting in a safe dividend yield of 3.8% by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

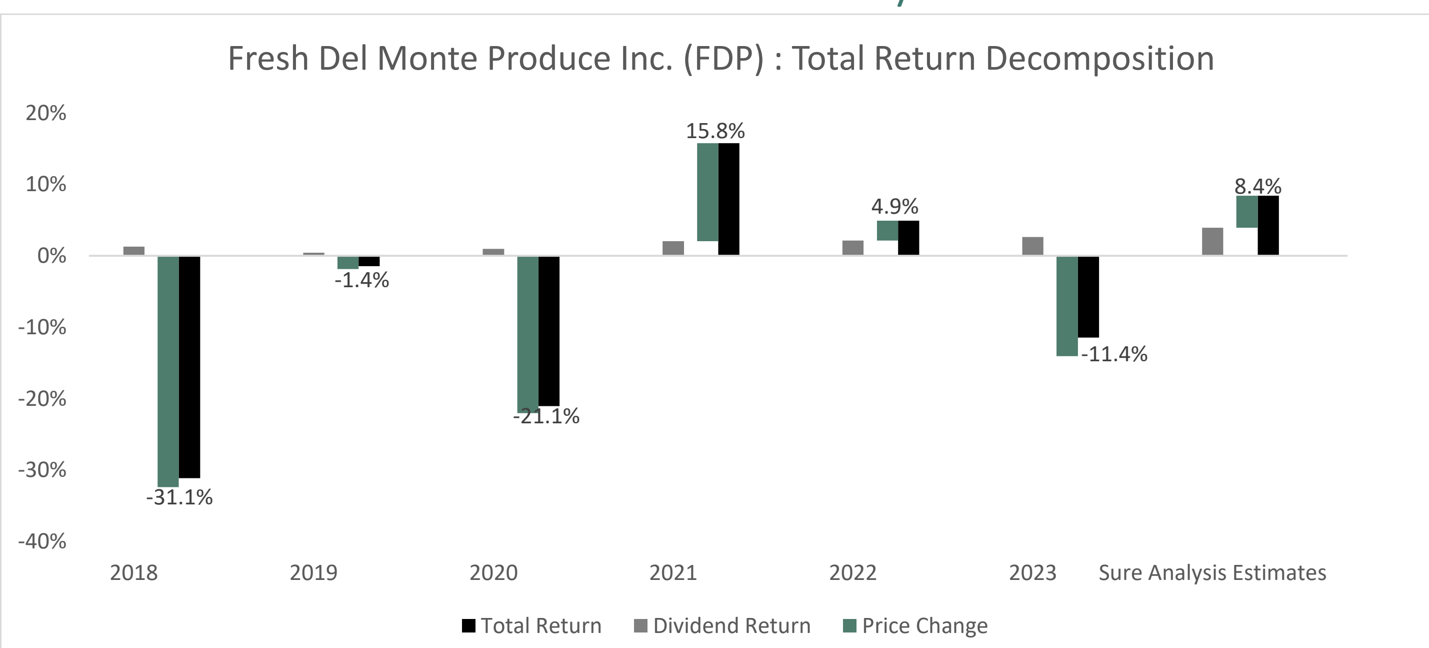
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	43%	13%	25%	-100%	18%	29%	30%	29%	-313%	***43%***	***57%***

Among other things, Fresh Del Monte Produce Inc. has the following vital attributes that will support it in navigating through varying market conditions: diversified products. In times of recession, demand for essential goods remains resilient; this nature of demand will cushion FDP. It has maintained reasonable debt levels while targeting long-term sustainable growth, ensuring flexibility in its finances. Lastly, the company has decreased its levels progressively from $472.7 million in Q1 2023 to $285 million in Q2 2024, indicating a consistent effort in debt reduction over the past year.

Final Thoughts & Recommendation

Fresh Del Monte Produce Inc. (FDP) demonstrates strong financial health with effective capital allocation and consistent debt reduction. The company's strategic initiatives, particularly in high-margin fresh and value-added segments, and its innovative product launches position it well for stable revenue streams. Therefore, we revise our rating to hold premised upon the 8.4% annualized total return expectation derived from the forecasted earnings-per-share growth of 2.0%, the 3.3% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,928	4,057	4,012	4,086	4,494	4,489	4,202	4,252	4,442	4,321
Gross Profit	365	342	461	332	286	306	251	304	340	351
Gross Margin	9.3%	8.4%	11.5%	8.1%	6.4%	6.8%	6.0%	7.1%	7.7%	8.1%
SG&A Exp.	176	184	187	173	201	202	196	193	187	187
Operating Profit	189	158	274	158	85	105	55	111	153	164
Op. Margin	4.8%	3.9%	6.8%	3.9%	1.9%	2.3%	1.3%	2.6%	3.5%	3.8%
Net Profit	142	62	225	121	(22)	67	49	80	99	(11)
Net Margin	3.6%	1.5%	5.6%	3.0%	-0.5%	1.5%	1.2%	1.9%	2.2%	-0.3%
Free Cash Flow	82	106	198	56	96	47	31	30	14	120
Income Tax	14	14	12	25	16	21	5	2	20	18

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,675	2,596	2,653	2,767	3,255	3,350	3,263	3,398	3,459	3,184
Cash & Equivalents	34	25	20	25	21	33	17	16	17	34
Acc. Receivable	345	346	349	359	378	364	359	343	374	387
Inventories	516	482	493	542	565	552	508	603	669	600
Goodwill & Int.	379	311	308	309	590	582	574	567	558	435
Total Liabilities	887	845	837	976	1,486	1,551	1,463	1,525	1,484	1,271
Accounts Payable	167	174	163	183	331	285	267	320	296	243
Long-Term Debt	267	254	232	358	662	587	542	529	548	408
Total Equity	1,748	1,708	1,792	1,767	1,692	1,719	1,728	1,802	1,905	1,896
LTD/E Ratio	0.15	0.15	0.13	0.20	0.39	0.34	0.31	0.29	0.29	0.21

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.4%	2.4%	8.6%	4.5%	-0.7%	2.0%	1.5%	2.4%	2.9%	-0.3%
Return on Equity	8.0%	3.5%	12.6%	6.7%	-1.2%	3.7%	2.7%	4.4%	5.1%	-0.6%
ROIC	7.0%	3.1%	11.1%	5.8%	-1.0%	2.8%	2.1%	3.4%	4.0%	-0.5%
Shares Out.	56.3	53.2	52.0	50.6	48.6	48.4	47.7	47.7	47.9	48.0
Revenue/Share	69.70	76.25	77.20	80.77	92.42	92.76	88.17	89.14	92.66	90.05
FCF/Share	1.45	1.99	3.81	1.10	1.98	0.97	0.64	0.63	0.29	2.51

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