



J.M. Smucker (SJM)

Updated November 26th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$121	5 Year CAGR Estimate:	9.2%	Market Cap:	\$12.8 B
Fair Value Price:	\$134	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/15/24
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	12/2/24
Dividend Yield:	3.6%	5 Year Price Target	\$164	Years Of Dividend Growth:	28
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

In 1897, Jerome Monroe Smucker founded a small cider mill in Orrville, Ohio. He used surplus apples, said to be cultivated by Johnny Appleseed, to make cider and apple butter. Since then, the J.M. Smucker company has grown into an international powerhouse of packaged food and beverage products including iconic names like Smucker's, Jif and Folgers, along with various pet food brands. The company has a market capitalization of \$12.8 billion and generated \$8 billion in sales in each of the last two fiscal years.

On November 7th, 2023, Smucker's completed the acquisition of Hostess Brands (TWNK) in a cash-and-stock deal with a value of \$5.6 billion, which includes debt. Hostess Brands has many sweet baked goods brands, which have expanded the product portfolio of Smucker's and create synergies. However, the deal value is about 13.2 times EBITDA of Hostess Brands, after the expected synergies have been taken into account. We thus view the deal as expensive for Smucker's.

In late November, Smucker's reported (11/26/24) results for the second quarter of fiscal 2025, which ends on April 30th, 2025. Currency-neutral, organic sales grew 2% over the prior year's quarter, mostly thanks to material price hikes. The strong volumes amid price hikes are testaments to the strength of the brands of the company. Adjusted earnings-per-share grew 7%, from \$2.58 to \$2.76, and exceeded the analysts' estimates by \$0.27. Thanks to better-than-expected performance, Smucker's slightly raised its guidance for fiscal 2025. It kept its guidance for growth of comparable sales intact at 8.5%-9.5% and raised its guidance for adjusted earnings-per-share from \$9.60-\$10.00 to \$9.70-\$10.10. This guidance is uniquely adjusted as it adds back in amortization (about \$1.50 per share). We include the impact of amortization expense in our earnings expectations and raise our forecast from \$8.30 to \$8.40. Smucker's has beaten the analysts' earnings-per-share estimates by a wide margin for 21 consecutive quarters.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$5.35	\$5.89	\$6.49	\$6.97	\$6.66	\$6.84	\$7.79	\$7.34	\$7.38	\$8.40	\$8.40	\$10.22
DPS	\$2.56	\$2.68	\$3.00	\$3.12	\$3.40	\$3.52	\$3.58	\$3.87	\$4.08	\$4.24	\$4.32	\$5.26
Shares¹	120	116	113	114	114	114	112	108	105	106	106	100

Smucker's has grown its earnings-per-share by 5.1% per year on average over the last decade. Previously the company provided long-term guidance for 8% annual earnings-per-share growth. While we believe this is a great goal, we are hesitant to extrapolate that sort of growth over the intermediate term. The company has a collection of iconic brands, but many of them are center-aisle staples that have been losing popularity as consumers look for fresher, healthier options. Increased advertising spending and moving toward consumer preferences will require significant capital outlays in the years to come. On the positive side, coffee is a strong, sticky segment for the business and Smucker's is working to expand the current iconic lines, such as Jif, to more on-trend products like granola bars and on-the-go snacks.

The pandemic spurred demand in recent years, but we do not see this as a long-term tailwind. We forecast 4% average annual growth of earnings-per-share over the next five years.

¹ 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.6	20.1	21.0	17.0	16.2	16.3	14.8	17.9	19.5	15.6	14.4	16.0
Avg. Yld.	2.4%	2.3%	2.2%	2.6%	3.2%	3.2%	3.1%	2.4%	2.8%	3.2%	3.6%	3.2%

The stock of Smucker's has traded at an average P/E ratio of 17.8 over the last decade. While we believe this mark is more or less fair, we do caution that it could be overstated should earnings growth stall. We have thus assumed a fair P/E ratio of 16.0 for the stock. Smucker's is currently trading at a P/E ratio of 14.4. If it trades at our assumed fair valuation level in five years, it will enjoy a 2.1% annualized valuation tailwind in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	48%	46%	46%	45%	51%	51%	46%	53%	55%	50%	51%	51%

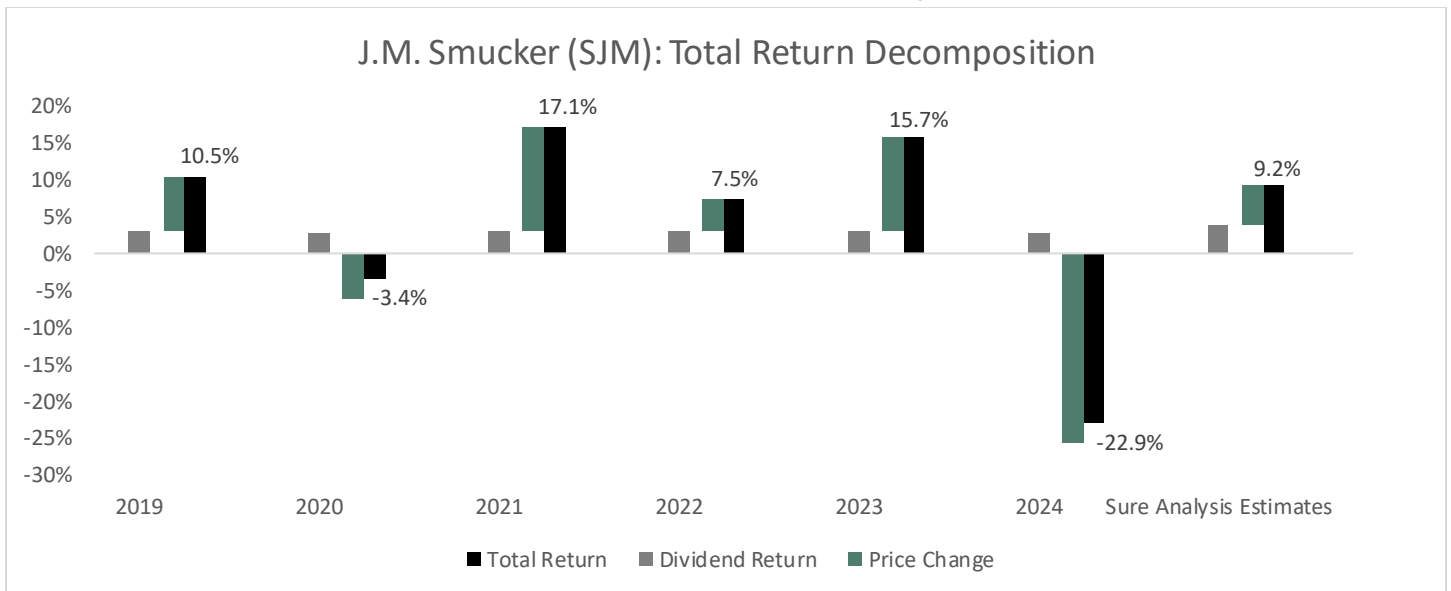
Smucker's iconic brands continue to enjoy recognition, but this moat is eroding somewhat as consumers look for fresher and healthier alternatives. During the last recession, Smucker's held up exceptionally well, growing both earnings and dividends during this time. Our apprehension is not with the next recession, but instead whether or not the company can meaningfully grow. As the pandemic has subsided, growth prospects appear lackluster.

The company has been working towards growth, mostly via acquisitions. Of course, this has levered up the balance sheet, but leverage remains under control. Smucker's has net debt of \$11.5 billion, which is nearly equal to the market capitalization of the stock. The company also has an interest coverage ratio of 4.5, which is very healthy. In addition, the 3.6% dividend is safe, given the decent payout ratio of 51% and the resilience of the company to recessions.

Final Thoughts & Recommendation

Smucker's has shed -24% in about 18 months, mostly due to the high value of the takeover of Hostess Brands, which signaled that the company may have weak growth prospects. Smucker's could offer a 9.2% average annual return over the next 5 years thanks to 4.0% growth, a 3.6% dividend and a 2.1% valuation gain. While Smucker's has a strong history with a solid dividend and iconic brands, its industry appears to be facing long-term headwinds, mostly due to increased health-consciousness of consumers. Nevertheless, the stock appears attractive right now and receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	7811	7392	7357	7838	7801	8003	7999	8529	8179
Gross Profit	2968	2835	2836	2916	3002	3139	2701	2802	3115
Gross Margin	38.0%	38.4%	38.5%	37.2%	38.5%	39.2%	33.8%	32.9%	38.1%
SG&A Exp.	1510	1380	1363	1509	1474	1523	1360	1455	1446
D&A Exp.	430	419	413	446	447	453	459	437	431
Operating Profit	1281	1253	1266	1198	1292	1411	1182	1181	1449
Operating Margin	16%	17%	17%	15%	16.6%	17.6%	14.8%	13.8%	17.7%
Net Profit	689	592	1339	514	780	876	632	(91)	744
Net Margin	8.8%	8.0%	18.2%	6.6%	10.0%	10.9%	7.9%	-1.1%	9.1%
Free Cash Flow	1260	867	896	781	986	1258	719	717	643
Income Tax	289	286	-478	187	247	296	212	82	252

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	15984	15640	15301	16711	16970	16280	16055	14991	20274
Cash & Equivalents	110	167	193	101	391	334	170	656	62
Accounts Receivable	450	439	386	504	551	534	525	598	737
Inventories	899	906	854	910	895	960	1089	1010	1039
Goodwill & Int. Ass.	12586	12227	11859	13030	12734	12060	11668	9646	14905
Total Liabilities	8976	8790	7410	8741	8780	8159	7915	7701	12580
Accounts Payable	459	477	512	591	782	1034	1193	1393	1336
Long-Term Debt	5430	5399	4832	5911	5621	4752	4491	4314	8364
Shareholder's Equity	7009	6850	7891	7971	8191	8125	8140	7291	7694
LTD/E Ratio	0.77	0.79	0.61	0.74	0.69	0.58	0.55	0.59	1.09

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	4.2%	3.7%	8.7%	3.2%	4.6%	5.3%	3.9%	-0.6%	4.2%
Return on Equity	9.8%	8.5%	18.2%	6.5%	9.6%	10.7%	7.8%	-1.2%	9.9%
ROIC	5.4%	4.8%	10.7%	3.9%	5.6%	6.6%	5.0%	-0.8%	5.4%
Shares Out.	116	113	114	114	113	112	108	106	104
Revenue/Share	65.64	63.95	65.11	69.30	68.79	71.45	74.13	80.31	78.34
FCF/Share	10.58	7.50	7.93	6.91	8.69	11.23	6.66	6.75	6.16

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

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