



Albertsons Companies (ACI)

Updated January 25th, 2025, by Tiago Dias

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	12.7%	Market Cap:	\$11 B
Fair Value Price:	\$27	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	01/24/2025
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.3%	Dividend Payment Date:	02/07/2025
Dividend Yield:	3.2%	5 Year Price Target	\$31	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Albertsons (ACI) is one of the largest food and drug retailers in the United States. With \$70 billion in annualized sales, a market cap of \$11 billion and a history dating back to the 1860s, Albertsons went public in 2020 and has paid a quarterly dividend ever since.

The company reported its Q3 2024 results on January 8th, 2025, and announced a quarterly dividend of \$0.15 per share, an increase over their previous quarterly dividend. With Q3 earnings of \$0.69 per share, the company's forward annualized dividend of \$0.60 is well covered by their ongoing business.

During the third quarter, the company delivered solid operational and financial results in an environment where clients remain cautious in their spending. But as the management team looks forward to the end of the fiscal year, they are energized by their plans to accelerate growth through its "Customers for Life" strategy, leveraging investments to enhance digital engagement and omnichannel revenue growth, improve the value proposition to clients and drive digital media growth.

The merger with Kroger has been terminated because of an unfavorable ruling by the courts, following the objections of the FTC. As a result of this ruling Kroger withdrew from the agreement and Albertsons has subsequently sued Kroger seeking damages as well as a \$600 million termination fee. The company alleges that Kroger failed to pay the \$600 million termination fee as required by the merger agreement, and that they had mishandled the anti-trust concerns from regulators in a deliberate attempt to torpedo the deal following the impact that changing interest rates had on asset valuations in general.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	--	--	--	--	\$0.23	\$0.80	\$3.24	\$2.70	\$2.27	\$2.23	\$2.25	\$2.61
DPS	--	--	--	--	--	--	\$0.20	\$0.44	\$7.33	\$0.48	\$0.48	\$0.56
Shares	--	--	--	--	575	579	465	470	534	581	580.0	583.0

With only a few years of historical data available to us, two of which were as a private company, it's difficult to make reliable estimate for future growth. Therefore, any estimates we make must be based around the industry in which the company operates in, namely the food and drug retail industry.

This is a mature, well established, and stable industry, which means growth rates will be low and primarily in-line with GDP growth. The fact that ACI is one of the largest players in this industry, and that retailing has notoriously low margins, means that earnings-per-share growth will likely be small. We forecast 3% annual earnings-per-share growth along with dividend growth in-line with earnings-per-share growth.

While sales figures are likely to remain steady, the low margins inherent to the food and drug retailing business means that earnings can fluctuate wildly on a yearly basis. That said, on average we would expect 2029 EPS to be around \$2.61 per share, and a dividend of around \$0.56. This is a conservative estimate considering the low but stable growth of food and drug retailing, as well as the unique cashflow advantages that retail enjoys.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	--	--	--	--	--	--	4.7	9.0	12.3	9.4	8.4	12.0
Avg. Yld.	--	--	--	--	--	--	1.3%	1.7%	26.2%	2.3%	2.5%	1.8%

Albertsons went public during 2020, at a time when there was great uncertainty in the market, particularly for physical retail businesses who were undergoing lockdowns and other restrictions. As the economy reopened, the company appears to have had its valuation re-rated upward by the market and is now standing at around a P/E ratio of 9.

This P/E ratio may seem like an undervaluation compared to some of its competitors like Walmart, Target, or Ahold Delhaize, but it's explained by the uncertainty provoked by the company's recent failed merger attempt. Going forward, we expect that a further re-rating will occur, and that the 2029 P/E will be around 12.

Safety, Quality, Competitive Advantage, & Recession Resiliency

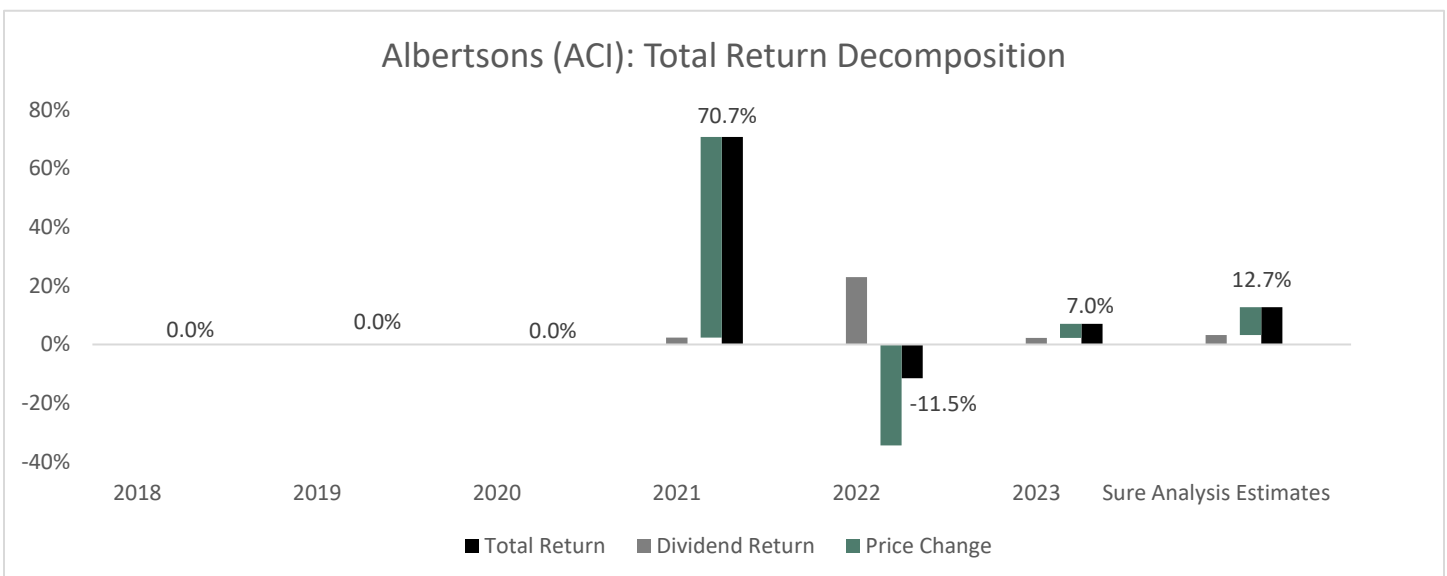
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	--	--	--	--	--	--	6%	16%	323%	22%	21%	21%

The company operates a low margin business in a highly competitive industry without any significant competitive advantage against other similar businesses. Retail is a harsh industry to compete in, and there are three primary factors that determine success, those are: Location, price, and product availability. Albertsons is a large company with more than 3,000 stores. This allows them to compete on location, and with \$70 billion in revenue it's clear that they have the scale and product availability to compete with the other large U.S. grocery retailers. These efficiencies of scale make the business remarkably stable, and able to support their ongoing dividend.

Final Thoughts & Recommendation

Albertsons' five-year total return forecast comes in at 12.7% per year, driven by 3% earnings-per-share growth, a 3.2% dividend yield, and a major revision in valuation multiple. The ending of the merger agreement means that any hopes of a quicker realization of value is over, nonetheless the high breakup fee and relatively solid fundamentals means that the 12.7% return is highly attractive causing us to rate the company as a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27,199	58,734	59,678	59,925	60,535	62,455	69,690	71,887	77,650	79,240
Gross Profit	7,503	16,062	16,641	16,361	16,895	17,594	20,415	20,722	21,756	22,050
Gross Margin	27.6%	27.3%	27.9%	27.3%	27.9%	28.2%	29.3%	28.8%	28.0%	27.8%
SG&A Exp.	8,152	15,660	16,033	16,209	16,272	16,642	18,836	18,301	19,596	19,930
D&A Exp.	718	1,614	1,805	1,898	1,739	2,262	2,118	2,305	2,460	2,444
Operating Profit	(649)	402	608	152	622	952	1,579	2,422	2,160	2,113
Op. Margin	-2.4%	0.7%	1.0%	0.3%	1.0%	1.5%	2.3%	3.4%	2.8%	2.7%
Net Profit	(1,225)	(502)	(373)	46	131	466	850	1,620	1,514	1,296
Net Margin	-4.5%	-0.9%	-0.6%	0.1%	0.2%	0.7%	1.2%	2.3%	1.9%	1.6%
Free Cash Flow	(502)	(58)	399	(528)	325	429	2,272	1,907	700	628
Income Tax	(153)	(40)	(90)	(964)	(79)	133	279	480	422	293

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	25,678	23,770	23,755	21,812	20,777	24,735	26,598	28,123	26,168	26,220
Cash & Equivalents	1,126	580	1,219	670	926	471	1,717	2,902	456	189
Acc. Receivable	---	---	---	615	586	525	551	561	688	724
Inventories	4,157	4,422	4,464	4,421	4,333	4,353	4,301	4,501	4,782	4,945
Goodwill & Int.	5,249	5,014	4,666	4,326	4,018	3,271	3,292	3,486	3,666	3,636
Total Liabilities	23,510	22,157	22,384	20,414	19,326	22,457	25,274	25,098	24,558	23,470
Accounts Payable	2,764	2,780	3,035	2,833	2,919	2,891	3,487	4,237	4,173	4,218
Long-Term Debt	12,569	12,226	12,338	11,876	10,586	8,048	7,701	7,386	8,910	7,608
Total Equity	2,169	1,613	1,371	1,398	1,451	2,278	1,324	3,025	1,611	2,748
LTD/E Ratio	5.80	7.58	9.00	8.49	7.30	3.53	5.82	2.44	5.53	2.77

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-7.0%	-2.0%	-1.6%	0.2%	0.6%	2.0%	3.3%	5.9%	5.6%	4.9%
Return on Equity	-62.4%	-26.6%	-25.0%	3.3%	9.2%	25.0%	47.2%	74.5%	65.3%	58.9%
ROIC	-12.1%	-3.5%	-2.7%	0.3%	1.0%	4.2%	8.8%	16.7%	14.5%	12.7%
Shares Out.	--	--	--	--	575	579	465	470	534	581
Revenue/Share	46.60	100.62	102.24	102.66	104.24	107.63	120.55	151.25	145.41	136.36
FCF/Share	(0.86)	(0.10)	0.68	(0.90)	0.56	0.74	3.93	4.01	1.31	1.08

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

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