



# The Andersons Inc. (ANDE)

Updated January 4<sup>th</sup>, 2025, by Patrick Neuwirth

## Key Metrics

<b>Current Price:</b>	\$40	<b>5 Year CAGR Estimate:</b>	14.1%	<b>Market Cap:</b>	\$1.4 B
<b>Fair Value Price:</b>	\$60	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	01/02/25
<b>% Fair Value:</b>	67%	<b>5 Year Valuation Multiple Estimate:</b>	8.4%	<b>Dividend Payment Date:</b>	01/23/25
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$73	<b>Years Of Dividend Growth:</b>	29
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

The Andersons, Inc. (ANDE) is an agriculture company that conducts business in North America. It operates through the following segments: Trade, Renewables, and Nutrient & Industrial (formerly Plant Nutrient). The Trade segment includes commodity merchandising and the operation of terminal grain elevator facilities. The Trade segment contributed over 70% of the company's revenue in 2023. The Renewables segment produces, purchases, and sells ethanol and co-products. The Nutrient & Industrial segment manufactures, and distributes agricultural inputs, primary nutrients, and specialty fertilizers, to dealers and farmers, along with turf care and corncob-based products. The \$1.4 billion company was founded in 1947 and has about 2,300 employees.

On November 4<sup>th</sup>, 2024, The Andersons released its third quarter results for the period ending September 30<sup>th</sup>, 2024. For the quarter, the company reported revenue of \$2.62 billion, a decrease from the \$3.64 billion reported in the same quarter of the previous year. The revenue decline continued to reflect weaker commodity prices and overall market sluggishness, which impacted the company's trading and merchandising activities. Net income for the quarter was \$27 million, or \$0.80 per diluted share, up from \$10 million, or \$0.28 per diluted share, in the previous year's third quarter.

The Renewables business continued as a strong contributor, reporting a pretax income of \$53 million, compared to \$47 million in the prior year, supported by improved ethanol yields and plant efficiency. The Nutrient & Industrial segment reported a pretax loss of \$6 million, an improvement over the \$8 million loss in the prior year, primarily due to strong engineered granule sales despite more normalized margins in base nutrients. The Trade Group recorded a pretax income of \$26 million and adjusted pretax income of \$23 million for the quarter, compared to the prior year's pretax income of \$8 million and adjusted pretax income of \$5 million, reflecting much improved market conditions and favorable elevation margins.

The company's "strategy for growth" plan now targets an adjusted EBITDA of \$475 million<sup>1</sup> by the end of 2026, a one-year delay from its previously stated 2025 target, reflecting an annual growth rate of 17%. Management expects continued strength in ethanol margins, which should support its Renewables segment. However, the company's performance in the remainder of 2024 will largely depend on the completion of the early harvest and the prevailing market dynamics, making the outlook contingent on these factors.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.84	\$2.01	\$0.41	\$3.12	\$1.46	\$0.55	\$0.23	\$2.94	\$3.46	\$2.94	<b>\$3.00</b>	<b>\$3.65</b>
<b>DPS</b>	\$0.44	\$0.58	\$0.63	\$0.65	\$0.67	\$0.69	\$0.70	\$0.71	\$0.73	\$0.73	<b>\$0.78</b>	<b>\$0.95</b>
<b>Shares<sup>2</sup></b>	29	28	28	28	28	33	33	34	34	34	<b>34</b>	<b>35</b>

The Andersons' long-term earnings growth track record has been volatile due to its industry (commodity trading) and due to the COVID-19 impact. Over the last five years, the average EPS growth rate is 40%.

<sup>1</sup> November 2024 Investor Presentation

<sup>2</sup> In millions.

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We expect the company to grow its earnings-per-share by 4% per year on average over the next five years. The company has a good track record in volatile markets with experienced trading, logistics, and operations. Increasing global demand, product innovation, and M&A growth in fertilizers are key to success. The company has a long history of paying dividends and has increased its payout for 29 consecutive years. In December 2024, the quarterly dividend increased by 2.6% from \$0.19 to \$0.195 per share. Over the last five years, the average annual dividend growth rate is 2.5%.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.9	19.6	82.9	11.3	23.5	50.5	81.0	15.3	11.2	17.0	13.4	20.0
Avg. Yld.	1.9%	1.5%	1.8%	1.8%	1.9%	2.5%	3.8%	1.8%	1.9%	1.6%	1.9%	1.3%

During the past decade shares of The Andersons Inc. have traded with an average price-to-earnings ratio of about 33 times earnings and today, it stands at 13.4. We are using 20 times earnings as a fair value baseline, implying the potential for a valuation tailwind. For context, the average industry price-to-earnings is 23. The company's dividend yield is currently 1.9% and the raises in the last few years have contributed modestly to total returns.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	11%	29%	154%	21%	46%	125%	304%	24%	21%	25%	26%	26%

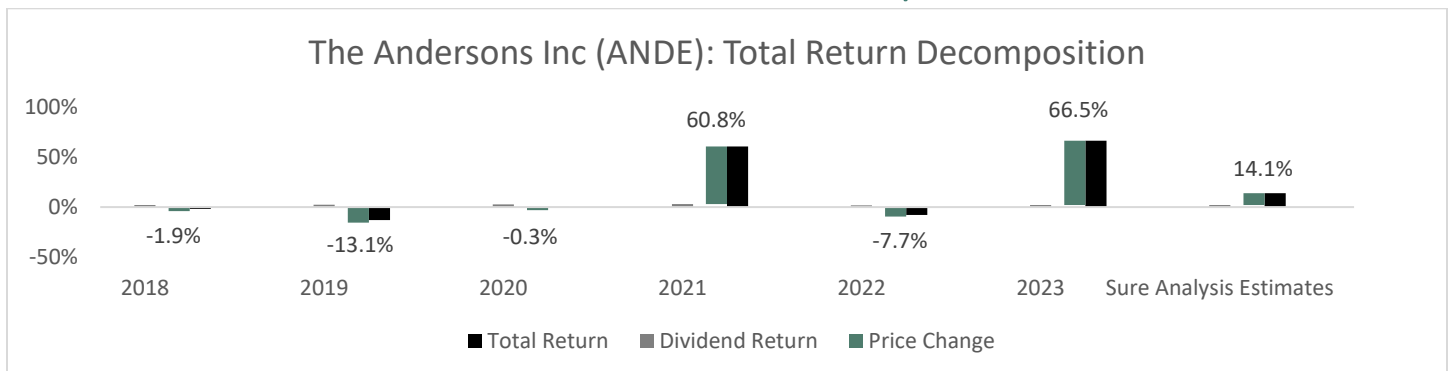
During the past five years, the company's dividend payout ratio has averaged around 100%. This high payout ratio is mainly related to low earnings-per-share in 2019 and 2020, while the company maintained its dividend growth policy. We expect that earnings growth will be modest but stable, meaning that there is still room for the dividend to continue to grow with a payout ratio below 30%.

The Andersons, Inc. operates a diversified agribusiness model focused on grain trading, ethanol production, and the distribution of plant nutrients, positioning itself for growth through strategic investments and acquisitions. Its diversified operations allow for adaptability in changing market dynamics, serving as a buffer against volatility in the agricultural sector. The company is well-positioned to capitalize on the increasing demand for renewable energy and low carbon initiatives, particularly in its Renewables segment. The grain trading operations, a cornerstone of The Andersons' business model, contribute significantly to its revenues and results, although with fluctuating performance over the past years due to the inherent volatility of commodity markets. The Andersons' ability to navigate global agricultural shifts and its focus on innovation and market expansion are central to its future potential and sustainability.

## Final Thoughts & Recommendation

We believe that the company's earnings and revenue could continue to grow modestly in the coming years. Revenue is predominantly dependent on the Trade segment, which has a volatile profile. The 29 consecutive years of dividend growth are comforting. We estimate a total return potential of 14.1% per year for the next five years, driven by 4% earnings growth, the starting yield of 1.9%, and a valuation tailwind. Shares earn a buy rating.

## 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>	4,540	4,198	3,925	3,686	3,045	8,003	8,065	12,612	17,330	14,750
<b>Gross Profit</b>	397	376	346	319	302	461	366	593	684	745
<b>Gross Margin</b>	8.7%	9.0%	8.8%	8.6%	9.9%	5.8%	4.5%	4.7%	3.9%	5.1%
<b>SG&amp;A Exp.</b>	316	389	---	---	---	410	378	424	467	492
<b>D&amp;A Exp.</b>	62	78	84	86	90	146	189	179	135	125
<b>Operating Profit</b>	81	(13)	29	32	44	51	(11)	169	218	253
<b>Operating Margin</b>	1.8%	-0.3%	0.7%	0.9%	1.4%	0.6%	-0.1%	1.3%	1.3%	1.7%
<b>Net Profit</b>	110	(13)	12	43	41	18	8	104	131	101
<b>Net Margin</b>	2.4%	-0.3%	0.3%	1.2%	1.4%	0.2%	0.1%	0.8%	0.8%	0.7%
<b>Free Cash Flow</b>	(160)	(33)	(123)	(102)	(345)	78	(179)	(133)	147	796
<b>Income Tax</b>	62	(0)	7	(63)	12	9	(11)	29	40	37

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	2,365	2,359	2,233	2,162	2,392	3,901	4,272	4,569	4,608	3,855
<b>Cash &amp; Equivalents</b>	115	64	63	35	23	55	29	216	115	644
<b>Accounts Receivable</b>	183	171	195	183	207	536	641	835	1,249	763
<b>Inventories</b>	796	747	683	649	691	1,171	1,293	1,815	1,732	1,167
<b>Goodwill &amp; Int. Ass.</b>	139	184	170	119	105	311	272	246	230	213
<b>Total Liabilities</b>	1,541	1,575	1,442	1,339	1,515	2,705	3,111	3,262	3,178	2,339
<b>Accounts Payable</b>	707	669	582	504	463	873	955	1,199	1,424	1,055
<b>Long-Term Debt</b>	377	481	474	495	723	1,226	1,360	1,135	875	634
<b>Shareholder's Equity</b>	803	764	774	815	830	974	962	1,072	1,199	1,283
<b>LTD/E Ratio</b>	0.47	0.63	0.61	0.61	0.87	1.26	1.41	1.06	0.73	0.49

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	4.7%	-0.6%	0.5%	1.9%	1.8%	0.6%	0.2%	2.4%	2.9%	2.4%
<b>Return on Equity</b>	14.6%	-1.7%	1.5%	5.3%	5.0%	2.0%	0.8%	10.2%	11.5%	6.9%
<b>ROIC</b>	9.3%	-1.1%	0.9%	3.3%	2.8%	0.9%	0.3%	4.2%	5.5%	4.5%
<b>Shares Out.</b>	29	28	28	28	28	33	33	34	34.4	34.4
<b>Revenue/Share</b>	159.57	148.42	138.05	130.28	107.04	241.82	242.99	372.53	503.52	429.01
<b>FCF/Share</b>	(5.62)	(1.18)	(4.34)	(3.62)	(12.1)	2.36	(5.40)	(3.92)	4.28	23.16

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

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