



WK Kellogg Co (KLG)

Updated May 12th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$17.33	5 Year CAGR Estimate:	-4.4%	Market Cap:	\$1.50 B
Fair Value Price:	\$8.50	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	05/30/2025
% Fair Value:	204%	5 Year Valuation Multiple Estimate:	-13.3%	Dividend Payment Date:	06/13/2025
Dividend Yield:	3.8%	5 Year Price Target	\$10.10	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Sector:	Consumer Staples	Rating:	Hold

Overview & Current Events

WK Kellogg Co. specializes in offering a range of ready-to-eat cereal products, featuring popular brands such as Frosted Flakes, Special K, Froot Loops, Raisin Bran, Frosted Mini-Wheats, and Kashi. The company emerged as a separate entity following its spin-off from The Kellogg Company (now renamed Kellanova), in October 2023. This strategic separation enables WK Kellogg Co. to sharpen its focus on the ready-to-eat cereal market in the U.S., Canada, and the Caribbean. Meanwhile, Kellanova is positioned to sustain and expand its presence in the global snacking industry, as well as the international cereal and noodles market. Kellanova is also to retain the North American frozen foods division.

On May 6th, 2025, WK Kellogg posted its Q1 results for the period ending March 29th, 2025. This was WK Kellogg's 7th quarter as a standalone company following its separation from Kellanova. For the quarter, the company's net sales came in at \$663 million, down 6.2% from the prior-year period. While the price/mix was up 3.0%, volume was down 8.6%. In other words, price elasticity and reduced retailer inventory were the main drivers of the decline in revenues.

Despite lower revenues, first-quarter adjusted EBITDA came in at \$72 million, reflecting a 4.0% year-over-year decrease. Notably, the company's adjusted EBITDA margin rose by 20 basis points to 10.8%, due to improved gross margin and disciplined cost management.

Net income was \$18 million, down from \$33 million last year. On a per-share basis, the net income was \$0.20, compared to net income per share of \$0.38 reported in the same period last year.

Management lowered its fiscal 2025 organic net sales projections to a range of -2.0% to -3.0%. Adjusted EBITDA growth is now projected to be flat to -2.0%. We believe the company can achieve EPS of \$0.85 for the year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.53	\$3.72	\$4.04	\$4.33	\$3.94	\$3.99	\$4.16	\$4.21	\$1.28	\$0.83	\$0.85	\$1.01
DPS	\$1.98	\$2.04	\$2.12	\$2.20	\$2.26	\$2.28	\$2.31	\$2.34	\$0.16	\$0.64	\$0.66	\$0.80
Shares¹	354	350	348	347	342	343	341	342	86	86	86	85

The table above shows the original financials of The Kellogg Company (now Kellanova), extending until fiscal year 2022. These figures serve as the closest benchmark for assessing WK Kellogg's historical performance. The N.A. cereal division of Kellogg's, now operating as WK Kellogg, has experienced stagnation in growth due to operating in a very mature market—a trend that persists today. This is evident in the company's recent results and management's 2024 to 2026 outlook, which projects steady net sales during this three-year span. Still, the company is likely to achieve EPS growth via end-to-end operating efficiencies and modernizing its supply chain, which management expects will result in an adjusted EBITDA margin expansion of about 500 bps during this period. Accordingly, we expect EPS growth of 3.5% over the medium-term. We also expect DPS growth of 4% through 2030.

¹ Share count is 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	18.7	20.5	17.1	15.4	15.2	16.4	15.1	16.9	9.0	19.6	20.4	10.0
Avg. Yld.	3.0%	2.7%	3.1%	3.3%	3.8%	3.5%	3.7%	3.3%	1.4%	3.9%	3.8%	8.0%

As the Valuation Analysis table shows, prior to the spin-off, The Kellogg's Company had historical traded at a P/E in the mid-teens. WK Kellogg is currently trading at a notably higher P/E of 20 based on our EPS estimates. We believe that the stock continues to be overvalued at its current levels. A heavy discount would be quite justified given WK Kellogg's stagnated sales and relatively weak bottom-line growth prospects. Thus, we have set our fair multiple at 10X. The 3.8% dividend yield appears insufficient, especially given current interest rates, and, again, the lack of noteworthy growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

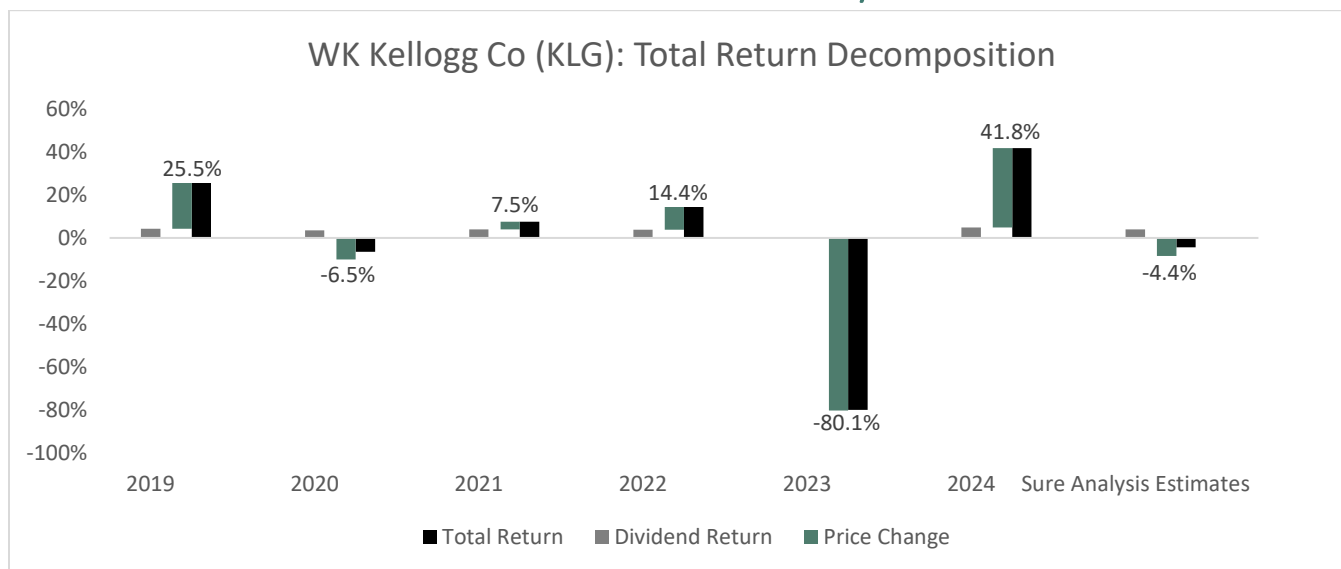
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	56%	55%	52%	51%	57%	57%	56%	56%	13%	77%	78%	80%

WK Kellogg's payout ratio currently stands at 78%. We believe this is an ok payout level, and that the dividend is safe, for now. For context, Kellanova has grown its dividend for 20 consecutive years and never cut its dividend since its first payout in 1985. This track record showcases management's focus on stable shareholder returns — a commitment we anticipate will extend to WK Kellogg. Moreover, the company enjoys a substantial competitive advantage attributed to the iconic status of its brands and a well-established N.A. distribution network. The company holds a 27.4% market share in the U.S. and a 38.9% market share in Canada, which are likely to grow further following the spin-off. Coupled with the enduring demand for cereal, we believe WK Kellogg is largely recession-proof and able to deliver stable sales across various economic environments.

Final Thoughts & Recommendation

The graph below displays pre-2023 consolidated company performance before the spin-off. Despite the stock's decline year-to-date, we believe that KLG may not be able to deliver positive returns over the medium-term. Our negative 4.4% annualized total return estimate is derived from our growth estimates and the 3.8% dividend yield, offset by a possibly heavy valuation headwind. We rate the stock as a hold due to the possibility of continued dividend increases, but we are not confident in its total return potential.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	---	---	---	---	---	2,867	2,460	2,665	2,763	2,708
Gross Profit	---	---	---	---	---	835	576	633	754	793
Gross Margin	---	---	---	---	---	29.1%	23.4%	23.8%	27.3%	29.3%
SG&A Exp.	---	---	---	---	---	639	539	559	662	631
D&A Exp.	---	---	---	---	---	69	68	68	66	78
Operating Profit	---	---	---	---	---	196	37	74	92	162
Op. Margin	---	---	---	---	---	6.8%	1.5%	2.8%	3.3%	6.0%
Net Profit	---	---	---	---	---	182	162	(63)	110	72
Net Margin	---	---	---	---	---	6.3%	6.6%	-2.4%	4.0%	2.7%
Free Cash Flow	---	---	---	---	---	216	(68)	(18)	272	(29)
Income Tax	---	---	---	---	---	60	52	(13)	35	13

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	---	---	---	---	---	1,259	1,244	1,436	1,889	1,962
Cash & Equivalents	---	---	---	---	---	---	---	---	89	40
Acc. Receivable	---	---	---	---	---	205	122	213	225	168
Inventories	---	---	---	---	---	280	330	431	345	353
Goodwill & Int.	---	---	---	---	---	110	110	110	110	110
Total Liabilities	---	---	---	---	---	765	674	749	1,589	1,645
Accounts Payable	---	---	---	---	---	447	373	473	490	513
Long-Term Debt	---	---	---	---	---	---	---	---	499	535
Total Equity	---	---	---	---	---	494	570	687	300	317
LTD/E Ratio	---	---	---	---	---	---	---	---	1.66	1.69

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	---	---	---	---	---	---	12.9%	-4.7%	6.6%	3.7%
Return on Equity	---	---	---	---	---	---	30.5%	-10.0%	22.3%	23.3%
ROIC	---	---	---	---	---	---	30.5%	-10.0%	14.8%	8.7%
Shares Out.	---	---	---	---	---	343	341	342	85.9	87.8
Revenue/Share	---	---	---	---	---	33.34	28.60	30.99	32.15	30.84
FCF/Share	---	---	---	---	---	2.51	(0.79)	(0.21)	3.17	(0.33)

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

Disclaimer

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