

Tyson Foods, Inc. (NYSE: TSN)

Sector: Consumer Staples



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$86.26	\$67.18	\$77.05	\$42.89	16.20	\$28.13B	0.85%	0.60

Business Description

Tyson Foods, Inc., together with its subsidiaries, operates as a food company worldwide. It was founded in 1935 and is headquartered in Springdale, Arkansas. It operates through four segments: Chicken, Beef, Pork, and Prepared Foods. They sell their products to domestic food retailers, foodservice distributors, restaurant operators, hotel chains and non-commercial establishments such as schools, health care facilities, and the military. Tyson also markets their products to international export markets. Tyson Foods, Inc. offers its products primarily under the Tyson, Jimmy Dean, Hillshire Farm, Sara Lee, Ball Park, Wright, Aidells, and State Fair brands.

Industry Trends

The packaged-food segment, especially meat products, has outperformed the S&P 500 over the past 5 years. This is due to various trends in the industry. Firstly, there has been steady profit growth due to industry-wide cost programs and decreasing input costs. Additionally, there are high growth segments, such as health, frozen, and organic food. Globalization has led to the rise of multinational food processing companies so brand value has gained significant prominence. Increased awareness and acceptance of rising food prices should lead to greater home-dining trends, stimulating brand building and nice market initiatives, driving M&A activity.

Investment Thesis

Tyson Foods Inc. is a strong buy recommendation due to TSN's portfolio transformation focusing on increasing margins while minimizing volatility, positioning TSN at the top of key growing segments with room to continue to capture market share due to their strong financials. After acquiring Hillshire Brands in 2014, the company has now positioned themselves as the #1 of #2 brand in 13 different categories, with still the opportunity to grow within the segment to increase their brand penetration within households. In addition, Tyson historically has been seen as a commoditized meat producer, which has led to low operating margins when the food industry generally attracts high margins. Tyson's portfolio transformation is centered on expanding their commitment to higher margin business lines, so they are in a strong position to see constant margin growth. The company also has a mixture of share repurchasing programs and synergies from their Hillshire acquisition that has been good for EPS growth. Lastly, despite acquiring The Hillshire Brands for \$7.7B in 2014, the company has already managed to position itself to make future acquisitions through rapid deleveraging.

Valuation Assumptions

WACC: 7.18%
Terminal FCF Growth Rate: 2.0%
Estimated EPS: 4.554; Avg P/E: 24.13x
Estimated EBITDA: 3.644
Industry Avg EV/EBITDA: 11.93x

Key Financials

Total Operating Margin: 8.2%
FCF/Debt: 26%
Net Debt/Equity: 76%
FCF Yield: 9.55%
Net Debt/Adj EBITDA: 1.7x

Corporate Social Responsibility

ESG Disclosure Score: 43.80 (Industry average: 30.23)
Environmental Disclosure Score: 32.56 (Industry average: 27.29)
Percent Women on Board: 22.22% (Industry average: 14.94%)
Percentage of Female Executives: 14.29% (Industry average: 7.79%)

5-Year Stock Performance



Competitive Analysis

Tyson competes with many other firms in the packaged food industry, including: PepsiCo Inc, Mondelez International, Kraft Heinz, General Mills, Pilgrim's Pride Corporation, Sanderson Farms Inc, Kellogg Co, JM Smucker Co, Hormel Foods Corp, and Conagra Foods Inc.

Competitive Advantages

Tyson has significant cost and brand advantages across their entire business, and their scale will enable the firm to continue seizing market share. Tyson has the number one or two market share in each of their "Core 9" categories, creating brand loyalty that is increasingly important in today's packaged-food environment because of changing consumer preferences. Additionally, Tyson has competitive advantages from their balance sheet; a history of effective deleveraging and 0.76x debt/equity ratio has and will continue to be important given the high deal activity in the packaged-foods industry to stay ahead of consumer preferences. Finally, Tyson has a competitive advantage in their diverse product mix that has been upgraded to more value-added branded products. Rather than relying on chicken or beef, which can see swings in prices given their commoditized nature, Tyson has a differentiated and innovative business model that would be difficult for competitors to duplicate because of the cost efficiencies Tyson benefits from due to their size.

Risks

The recent price-fixing class action lawsuit could lead Tyson to incur high litigation costs or fines if any wrongdoing is actually found. Our belief is that the allegations are unfounded and don't reflect collusion among market participants, but rather shows companies acting in their best interests given changes in the demand for chicken. Another key risk lies in the price fluctuations of different commodities, including corn, chicken, and cattle. While Tyson has adjusted their product mix to minimize volatility, they still are dependent on the supply/demand of many commodities and cannot fully hedge their risks. One of Tyson's main goals currently is to sustainably increase their operating margins across all 4 segments; prolonged depressions or rises in commodity prices could squeeze margins. Another risk lies in unexpected shifts in consumer tastes as many Americans are becoming more and more health conscious. Tyson will need to continuously innovate to match their products with consumer demands.

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Sources: Bloomberg

