



Archer-Daniels-Midland (ADM)

Updated May 19th, 2024 by Felix Martinez

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	10.5%	Market Cap:	\$30.4 B
Fair Value Price:	\$78	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	05/15/24
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.8%	Dividend Payment Date:	06/05/24
Dividend Yield:	3.3%	5 Year Price Target	\$90	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Archer-Daniels-Midland is the largest publicly traded farmland product company in the United States. The company, founded in 1902, trades with a market capitalization of \$30.4 billion. Archer-Daniels-Midland's businesses include processing cereal grains, oilseeds, and agricultural storage and transportation.

Archer-Daniels-Midland reported its first-quarter results for Fiscal Year (FY)2024 on April 30th, 2024. The company saw segment operating profit of \$1,311 million and an adjusted segment operating profit of \$1,317 million. The trailing four-quarter average adjusted return on invested capital (ROIC) was 11.2%. CEO Juan Luciano highlighted the company's strategic advancements, including increased production at the Green Bison JV, expanded regenerative agriculture and BioSolutions efforts, and streamlined productivity initiatives, all contributing to improved customer service and sequential profit growth in the Nutrition segment. For the first quarter, ADM's GAAP earnings per share (EPS) were \$1.42, with a segment operating profit of \$1,311 million, factoring in \$6 million in charges for impairments and restructuring. The adjusted segment operating profit was \$1,317 million, a 24% decrease from the previous year, and adjusted EPS was \$1.46. This decline was primarily due to lower pricing and execution margins in crush and origination, resulting in a \$1.00 per share decrease, and unfavorable mark-to-market timing impacts of \$0.38 per share. However, these were partially offset by improved input costs from lower energy prices, higher processed volumes in Ag Services & Oilseeds, and increased equity earnings. Looking forward, ADM maintains its full-year guidance, expecting adjusted earnings per share to range from \$5.25 to \$6.25. The company continues to focus on reducing supply chain complexity and enhancing shareholder returns through initiatives such as the accelerated share repurchase program, aiming to sustain strong performance and drive future growth amidst challenging market conditions.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.20	\$2.55	\$2.16	\$2.13	\$3.50	\$3.24	\$3.59	\$5.19	\$7.85	\$6.98	\$5.57	\$6.46
DPS	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.44	\$1.48	\$1.60	\$1.80	\$2.00	\$2.32
Shares¹	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0	542.0	542.0	542.0

Unlike several dividend stocks that have achieved consistent year-over-year growth in earnings-per-share, Archer-Daniels-Midland (ADM) has faced challenges in boosting its profits over the past decade. Notably, its earnings-per-share for 2012 and 2013 were notably lower than those in 2011. However, the recent acquisition of Ziegler Group and the establishment of a nutrition flavor research and customer center are expected to contribute to improved growth prospects. This positive outlook leads us to anticipate a feasible growth rate of approximately 3.0% for the future. Unlike other enterprises that thrive on increased consumer spending during prosperous periods, ADM's revenue doesn't surge significantly due to the relatively stable demand for food. Consequently, while a robust economy offers substantial advantages to many firms, it doesn't serve as a significant tailwind for Archer-Daniels-Midland.

¹ Shares in Millions

Disclosure: This analyst is long the security discussed in this research report.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.5	15.4	18.8	20.1	14.3	17.1	14.8	13.0	11.8	10.3	11.1	14.0
Avg. Yld.	2.1%	2.4%	3.0%	3.0%	2.9%	3.1%	3.3%	2.2%	1.7%	2.5%	3.3%	2.6%

Archer-Daniels-Midland has been valued at a price-to-earnings multiple of 14.9x over the last decade. Even though its price-to-earnings multiple has been as low as 9.5x and as high as 20.1x. Now, shares look undervalued, with a current PE of 11.1x based on 2024 expected earnings of \$5.57. Also, investors get an above-average dividend yield of 3.3% at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30.0%	43.9%	55.6%	60.1%	38.3%	43.2%	40.1%	28.5%	20.4%	25.8%	36%	36%

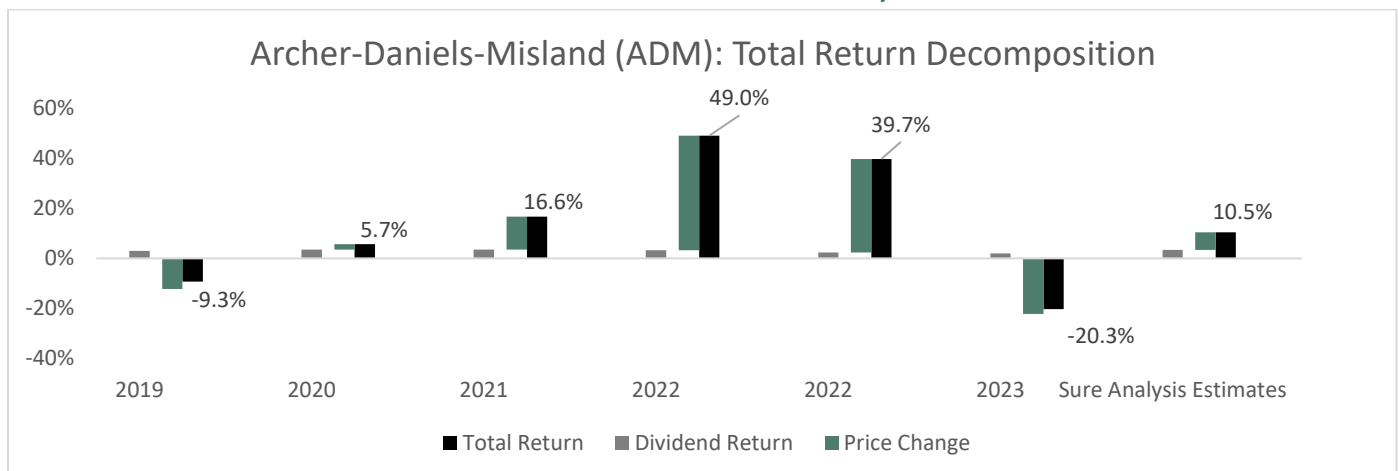
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's earnings-per-share solid growth, the dividend payout ratio declined considerably to 38% in 2018. The dividend payout ratio is not high, at only 25% based on 2023 earnings. Also, because the company's profits performed well during the last recession, which saw earnings grow from \$2.84 in 2008 to \$3.06 in 2009, we believe that the dividend is relatively safe.

Archer-Daniels-Midland's business is recession resilient since the demand for food products is not cyclical. Archer-Daniels-Midland is one of the most significant players in its industry and has competitive advantages due to its scale and geographical reach. The company has been increasing its dividend for 51 consecutive years and has a 5-year dividend growth rate of 6.1%. Archer-Daniels-Midland looks like a low-risk investment due to its recession resilience, solid balance sheet, geographic diversification, and dividend history. However, note that the company balance sheet Debt/Equity ratio is 0.4. This is a little higher than the past five-year average but not at a dangerous level for the company.

Final Thoughts & Recommendation

We expect Archer-Daniels-Midland to grow earnings at 3.0% annually. Investors get an above-average dividend yield and an undervalued stock price with a fair price of \$78. The total return outlook is 10.5% annually for the next five years. We recommend that this company is a buy at the current price because of the expected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	81,201	67,702	62,346	60,828	64,341	64,656	64,355	85,249	101,556	93,940
Gross Profit	4,768	3,966	3,618	3,518	4,181	4,147	4,453	5,987	7,570	7,513
Gross Margin	5.9%	5.9%	5.8%	5.8%	6.5%	6.4%	6.9%	7.0%	7.5%	8.0%
SG&A Exp.	1,933	1,985	1,981	1,978	2,165	2,493	2,687	2,994	3,358	3,456
D&A Exp.	894	882	900	924	941	993	976	996	1,028	1,059
Operating Profit	2,835	1,981	1,637	1,540	2,016	1,654	1,766	2,993	4,212	4,057
Op. Margin	3.5%	2.9%	2.6%	2.5%	3.1%	2.6%	2.7%	3.5%	4.1%	4.3%
Net Profit	2,248	1,849	1,279	1,595	1,810	1,379	1,772	2,709	4,340	3,483
Net Margin	2.8%	2.7%	2.1%	2.6%	2.8%	2.1%	2.8%	3.2%	4.3%	3.7%
Free Cash Flow	4,049	580	-7,390	-7,015	-5,626	-6,280	-3,209	5,426	2,159	2,966
Income Tax	877	438	534	7	245	209	101	578	868	828

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	43,997	40,157	39,769	39,963	40,833	43,997	49,719	56,136	59,774	54,630
Cash & Equivalents	1,099	910	619	804	1,997	852	666	943	1,037	1,368
Acc. Receivable	4,236	2,886	2,426	2,424	2,683	3,281	3,653	4,490	6,235	5,284
Inventories	9,374	8,243	8,831	9,173	8,813	9,170	11,713	14,481	14,771	11,960
Goodwill & Int.	3,392	3,688	3,703	3,918	4,041	5,476	5,585	6,747	6,544	6,341
Total Liabilities	24,367	22,242	22,588	21,641	21,837	24,772	29,623	33,369	35,158	30,170
Accounts Payable	4,326	3,474	3,606	3,894	3,545	3,746	4,474	6,388	7,803	6,313
Long-Term Debt	5,660	5,877	6,931	7,493	8,388	8,881	9,929	9,539	9,180	8,365
Total Equity	19,575	17,899	17,173	18,313	18,981	19,208	20,000	22,477	24,284	24,130
LTD/E Ratio	0.29	0.33	0.40	0.41	0.44	0.46	0.50	0.42	0.38	0.35

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.1%	4.4%	3.2%	4.0%	4.5%	3.3%	3.8%	5.1%	7.5%	6.1%
Return on Equity	11.3%	9.9%	7.3%	9.0%	9.7%	7.2%	9.0%	12.8%	18.6%	14.2%
ROIC	8.6%	7.5%	5.3%	6.4%	6.8%	5.0%	6.1%	8.7%	13.1%	10.5%
Shares Out.	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0	542.0
Revenue/Share	123.78	109.02	105.49	106.34	113.48	114.44	113.90	150.62	180.38	173.31
FCF/Share	6.17	0.93	-12.50	-12.26	-9.92	-11.12	-5.68	9.59	3.83	5.47

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

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