Albertsons Companies (ACI)

Updated October 19th, 2024, by Tiago Dias

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	12.3%	**Market Cap:**	$11 B
Fair Value Price:	$27	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	10/28/2024
% Fair Value:	70%	**5 Year Valuation Multiple Estimate:**	7.3%	**Dividend Payment Date:**	11/08/2024
Dividend Yield:	2.5%	**5 Year Price Target**	$31	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 Q2 2024 results on October 15th, 2024, and announced a quarterly dividend of $0.12 per share. With Q2 earnings of $0.25 per share, the company's forward annualized dividend of $0.48 is well covered by their ongoing business.

During the second quarter, investments in the company's "Customers for Life" strategy drove strong growth in digital sales and pharmacy operations. But as the management team looks forward to the full year, they expect to see continuing headwinds related to investments in associate wages and benefits, an increasing mix of the pharmacy and digital businesses which carry lower margins, and an increasingly competitive backdrop. Management expects these headwinds to be partially offset by new and ongoing productivity initiatives.

Identical sales increased by 2.5%, with digital sales increasing by 24%, while gross margin remained unchanged at 27.6%. During the first half of the year the company spent $952 million on CAPEX, primarily related to remodels, store openings and digital and technology platforms.

The pending merger with Kroger is still blocked. The Colorado anti-trust trial has wrapped up, and the judge is deliberating on the decision. This follows the FTC's February decision to block the proposed merger of the grocery chains, and the continued scrutiny that the planned business combination has been under.

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.

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.

Albertsons Companies (ACI)

Updated October 19th, 2024, by Tiago Dias

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 around the company's upcoming merger. As a result of this, if the merger doesn't happen, we would expect that a further re-rating will occur, and that the 2029 P/E will be around 12.

Safety, Quality, Competitive Advantage, & Recession Resiliency

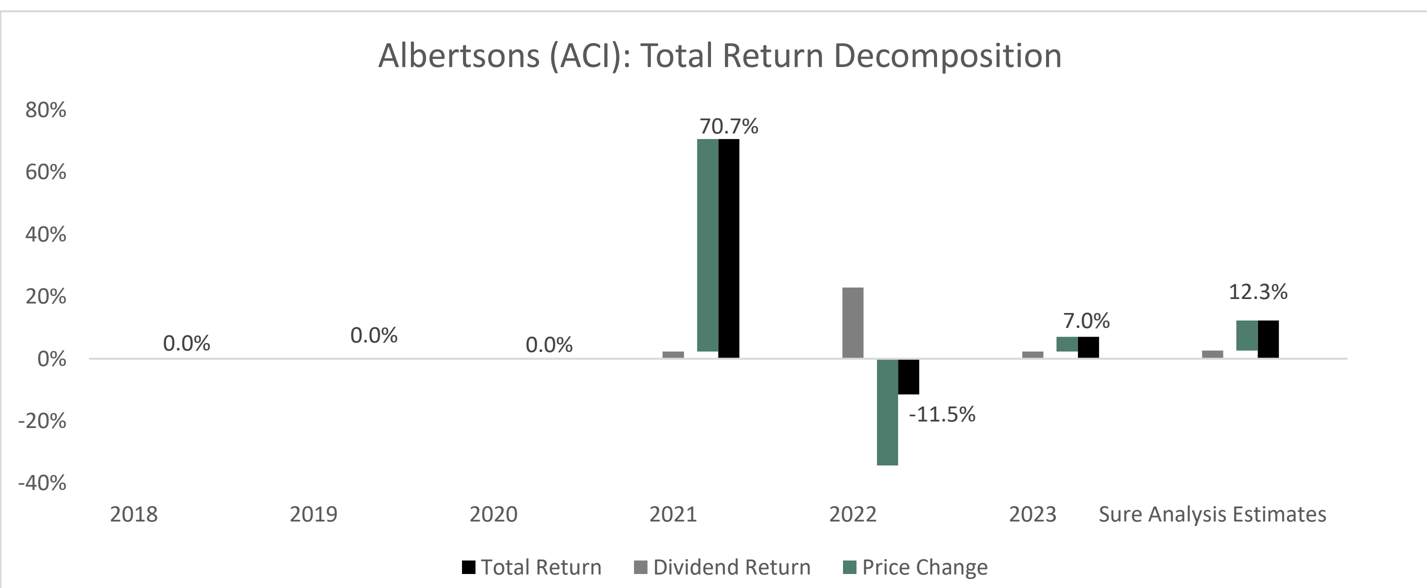
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	--	--	--	--	--	--	6%	16%	323%	22%	***21%***	***21%***

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 12.3% per year, driven by 3% earnings-per-share growth, a 2.4% dividend yield, and a major revision in valuation multiple. Additionally, there is the potential for a quicker realization of value as a result of the ongoing merger process. The current uncertainty regarding regulatory approval of the merger agreement leads us to give the company a hold rating.

Total Return Breakdown by Year



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.

Albertsons Companies (ACI)

Updated October 19th, 2024, by Tiago Dias

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.