



# Archer-Daniels-Midland (ADM)

Updated November 19<sup>th</sup>, 2024 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$58	<b>5 Year CAGR Estimate:</b>	11.7%	<b>Market Cap:</b>	\$25.2 B
<b>Fair Value Price:</b>	\$70	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	11/21/24
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.7%	<b>Dividend Payment Date:</b>	12/12/24
<b>Dividend Yield:</b>	3.8%	<b>5 Year Price Target</b>	\$81	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$25.2 billion. Archer-Daniels-Midland's businesses include processing cereal grains, oilseeds, and agricultural storage and transportation.

Archer-Daniels-Midland reported its third-quarter results for Fiscal Year (FY)2024 on November 18<sup>th</sup>, 2024. The company reported adjusted net earnings of \$530 million and adjusted EPS of \$1.09, both down from the prior year due to a \$461 million non-cash charge related to its Wilmar equity investment. Consolidated cash flows year-to-date reached \$2.34 billion, reflecting strong operations despite market challenges. The company also filed restated fiscal year 2023 reports, confirming no impact on consolidated results for 2023 or the first half of 2024. ADM continues to implement internal control enhancements to ensure accuracy in financial reporting.

Segment performance was mixed in Q3 2024. The Ag Services & Oilseeds segment reported a 43% decline in operating profit due to weaker South American margins and lower biodiesel profitability. The Carbohydrate Solutions segment was relatively stable, with a 3% drop in profit, driven by strong starch and sweetener performance offset by lower ethanol margins. The Nutrition segment faced a 19% decline in operating profit, primarily in the Human Nutrition subsegment due to increased costs and operational challenges. Year-to-date, total segment profits fell 32% compared to 2023, reflecting softer global market conditions.

Looking ahead, ADM maintains its full-year adjusted EPS guidance of \$4.50 to \$5.00. The company anticipates continued challenges in its Ag Services & Oilseeds and Crushing businesses, while Carbohydrate Solutions and Nutrition are expected to deliver steady performance. CEO Juan Luciano emphasized ADM's focus on operational excellence and disciplined capital allocation to drive value creation despite a softer market outlook.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.20	\$2.55	\$2.16	\$2.13	\$3.50	\$3.24	\$3.59	\$5.19	\$7.85	\$6.98	<b>\$5.00</b>	<b>\$5.80</b>
<b>DPS</b>	\$0.96	\$1.12	\$1.20	\$1.28	\$1.34	\$1.40	\$1.44	\$1.48	\$1.60	\$1.80	<b>\$2.01</b>	<b>\$2.33</b>
<b>Shares<sup>1</sup></b>	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0	542.0	<b>542.0</b>	<b>542.0</b>

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.

<sup>1</sup> 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	10.6	14.0
Avg. Yld.	2.1%	2.4%	3.0%	3.0%	2.9%	3.1%	3.3%	2.2%	1.7%	2.5%	3.8%	2.8%

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 10.6x based on 2024 expected earnings of \$5.00. Also, investors get an above-average dividend yield of 3.8% 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%	40%	40%

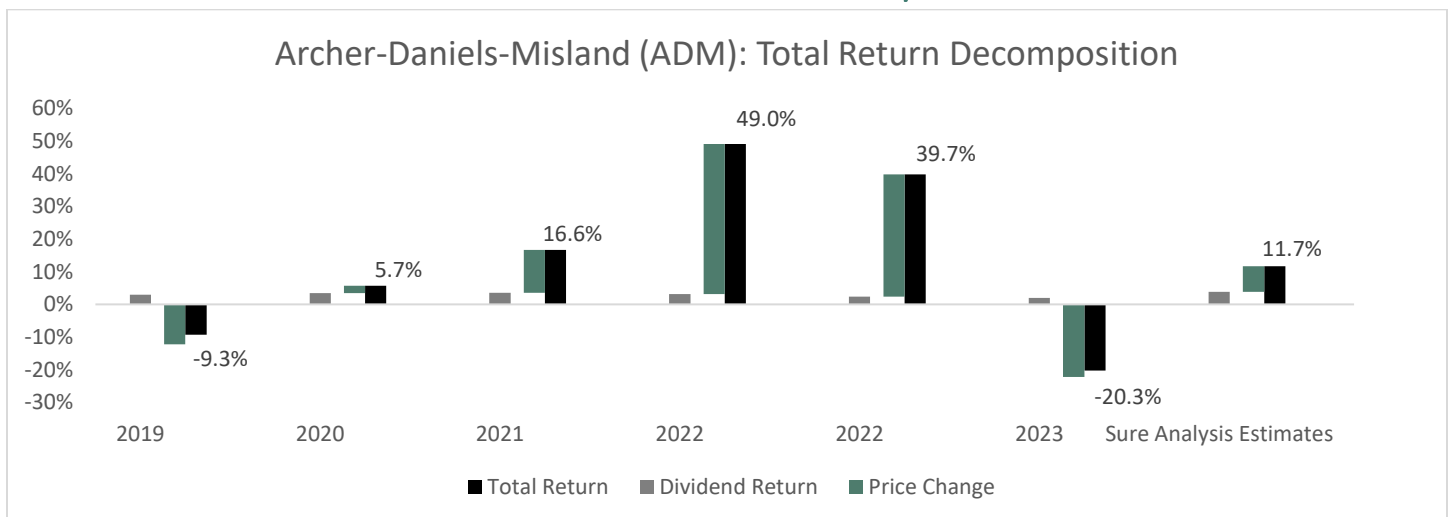
Archer-Daniels-Midland's dividend payout ratio rose substantially between 2009 and 2017, but that was when the payout ratio peaked at the 60% level in 2017. Thanks to 2018's earnings-per-share solid growth, the dividend payout ratio declined considerably to 38% in 2018. The dividend payout ratio is not 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 7.4%. 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 0.5. 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 \$70. The total return outlook is 11.7% 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
<b>Revenue</b>	81,201	67,702	62,346	60,828	64,341	64,656	64,355	85,249	101,556	93,940
<b>Gross Profit</b>	4,768	3,966	3,618	3,518	4,181	4,147	4,453	5,987	7,570	7,513
<b>Gross Margin</b>	5.9%	5.9%	5.8%	5.8%	6.5%	6.4%	6.9%	7.0%	7.5%	8.0%
<b>SG&amp;A Exp.</b>	1,933	1,985	1,981	1,978	2,165	2,493	2,687	2,994	3,358	3,456
<b>D&amp;A Exp.</b>	894	882	900	924	941	993	976	996	1,028	1,059
<b>Operating Profit</b>	2,835	1,981	1,637	1,540	2,016	1,654	1,766	2,993	4,212	4,057
<b>Op. Margin</b>	3.5%	2.9%	2.6%	2.5%	3.1%	2.6%	2.7%	3.5%	4.1%	4.3%
<b>Net Profit</b>	2,248	1,849	1,279	1,595	1,810	1,379	1,772	2,709	4,340	3,483
<b>Net Margin</b>	2.8%	2.7%	2.1%	2.6%	2.8%	2.1%	2.8%	3.2%	4.3%	3.7%
<b>Free Cash Flow</b>	4,049	580	-7,390	-7,015	-5,626	-6,280	-3,209	5,426	2,159	2,966
<b>Income Tax</b>	877	438	534	7	245	209	101	578	868	828

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	43,997	40,157	39,769	39,963	40,833	43,997	49,719	56,136	59,774	54,630
<b>Cash &amp; Equivalents</b>	1,099	910	619	804	1,997	852	666	943	1,037	1,368
<b>Acc. Receivable</b>	4,236	2,886	2,426	2,424	2,683	3,281	3,653	4,490	6,235	5,284
<b>Inventories</b>	9,374	8,243	8,831	9,173	8,813	9,170	11,713	14,481	14,771	11,960
<b>Goodwill &amp; Int.</b>	3,392	3,688	3,703	3,918	4,041	5,476	5,585	6,747	6,544	6,341
<b>Total Liabilities</b>	24,367	22,242	22,588	21,641	21,837	24,772	29,623	33,369	35,158	30,170
<b>Accounts Payable</b>	4,326	3,474	3,606	3,894	3,545	3,746	4,474	6,388	7,803	6,313
<b>Long-Term Debt</b>	5,660	5,877	6,931	7,493	8,388	8,881	9,929	9,539	9,180	8,365
<b>Total Equity</b>	19,575	17,899	17,173	18,313	18,981	19,208	20,000	22,477	24,284	24,130
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	5.1%	4.4%	3.2%	4.0%	4.5%	3.3%	3.8%	5.1%	7.5%	6.1%
<b>Return on Equity</b>	11.3%	9.9%	7.3%	9.0%	9.7%	7.2%	9.0%	12.8%	18.6%	14.2%
<b>ROIC</b>	8.6%	7.5%	5.3%	6.4%	6.8%	5.0%	6.1%	8.7%	13.1%	10.5%
<b>Shares Out.</b>	655.0	595.0	573.0	557.0	559.0	557.0	563.0	566.0	563.0	542.0
<b>Revenue/Share</b>	123.78	109.02	105.49	106.34	113.48	114.44	113.90	150.62	180.38	173.31
<b>FCF/Share</b>	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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