



Hormel Foods Corporation (HRL)

Updated December 5th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	12.7%	Market Cap:	\$17 B
Fair Value Price:	\$37	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	01/13/25 ¹
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.8%	Dividend Payment Date:	02/18/25
Dividend Yield:	3.6%	5 Year Price Target	\$52	Years Of Dividend Growth:	59
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Hormel Foods was founded in 1891 in Minnesota. Since that time, the company has grown into a \$17 billion market capitalization juggernaut in the food products industry with about \$12 billion in annual revenue. Hormel has kept its core competency as a processor of meat products for well over a hundred years but has also grown into other business lines through acquisitions. The company sells its products in 80 countries worldwide, and its brands include Skippy, SPAM, Applegate, Justin's, and more than 30 others. In addition, Hormel is a member of the Dividend Kings, having increased its dividend for 59 consecutive years.

Hormel posted fourth quarter and full-year earnings on December 4th, 2024, and results were in line with expectations. The company posted adjusted earnings-per-share of 42 cents, which met estimates. Revenue was off 2% year-on-year to \$3.14 billion, also hitting estimates.

Operating income was \$308 million for the quarter on an adjusted basis, or 9.8% of revenue. Operating cash flow was \$409 million for Q4. For the year, sales were \$11.9 billion, and adjusted operating income was \$1.1 billion, or 9.6% of revenue. Adjusted earnings-per-share was \$1.58. Operating cash flow hit a record of \$1.3 billion.

Guidance for 2025 was initiated at \$11.9 billion to \$12.2 billion in sales, with organic net sales growth of 1% to 3%. Adjusted operating income is expected to be \$1.18 billion to \$1.28 billion, and earnings guidance was set at \$1.58 to \$1.72 per share on an adjusted basis. We've initiated estimates at \$1.67, accordingly. Estimates assume \$100 million to \$150 million in cost savings.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.32	\$1.64	\$1.57	\$1.86	\$1.74	\$1.66	\$1.73	\$1.82	\$1.61	\$1.58	\$1.67	\$2.34
DPS	\$0.50	\$0.58	\$0.68	\$0.75	\$0.84	\$0.93	\$0.98	\$1.04	\$1.10	\$1.13	\$1.16	\$1.41
Shares²	527	528	528	529	544	548	542	546	547	549	550	555

Hormel's growth was once better than it is now, as we've seen a handful of years in the recent past where earnings were lower year-over-year. Relatively consistent results have come from a steady stream of acquisitions and a bit of organic growth. This has afforded Hormel the ability to consistently raise its dividend as well. We note that our 7% growth estimate is higher than previously expected.

We are forecasting forward earnings growth of 7% annually as Hormel could grow more quickly than it has in the past. We see sales growth as the primary driver of earnings-per-share expansion moving forward as recent results continue to show that margins and volumes can be unpredictable for this business. Hormel will likely continue to buy growth because its legacy businesses are not currently producing it outside of an extraordinary circumstance early in 2020. This strategy has certainly worked in the past, and Planters is yet another example. Margins remain in focus, but early guidance for 2025 is that Hormel should see gradual improvement.

¹ Estimated date

² Share count 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	2029
Avg. P/E	21.6	23.4	21.8	19.3	24.2	28.4	26.9	25.0	20.2	19.0	19.2	22.0
Avg. Yld.	1.8%	1.5%	2.0%	2.1%	2.0%	2.0%	2.1%	2.3%	3.4%	3.6%	3.6%	2.7%

Hormel's price-to-earnings ratio has been volatile in the last decade, sinking as low as 13 in 2009 before rebounding to 23.4 in 2016. It sits at 19.2 now and we believe it could move higher over time towards our fair value estimate of 22 times earnings. That works out to a meaningful tailwind to total returns over the next five years as the stock is under fair value. We see risk in the valuation to the upside today. We are forecasting a lower yield five years from now as the stock's valuation could move up.

Hormel boosted its dividend once more at the beginning of fiscal 2025, marking its 59th consecutive year of dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	35%	33%	41%	40%	48%	56%	57%	57%	68%	72%	70%	61%

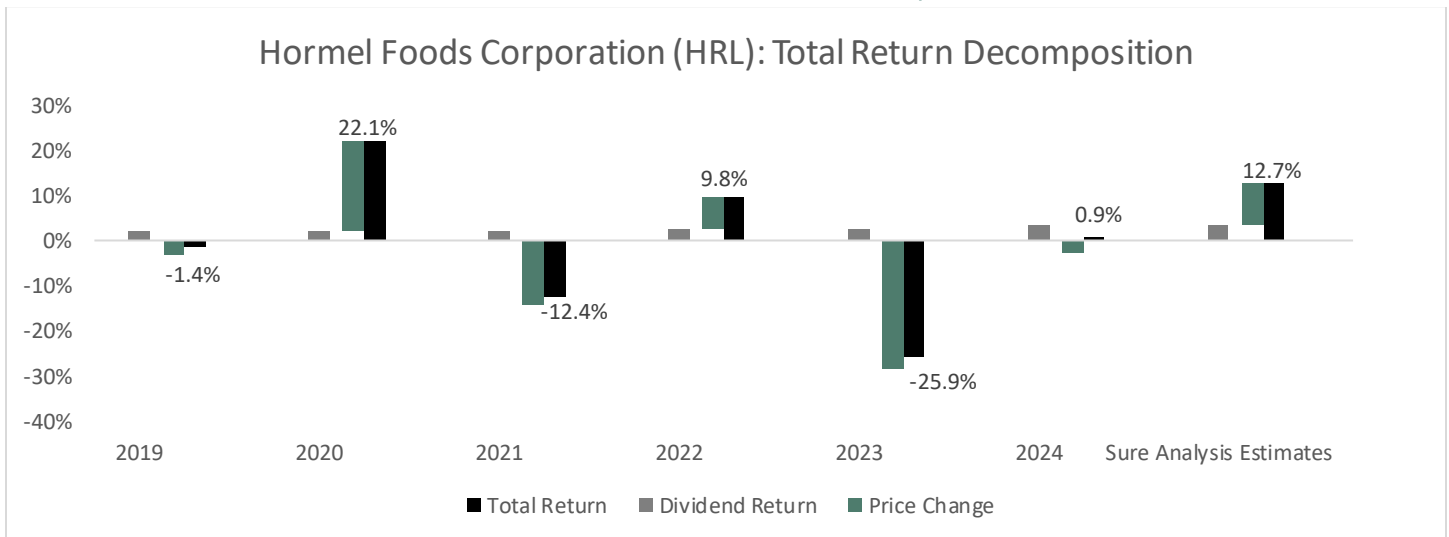
Hormel's payout ratio is 70% of earnings, and we expect it could drift lower over time as earnings outpace dividend growth. Management is certainly committed to the dividend, but it wants to acquire growth as well, which uses cash.

Hormel's main competitive advantage is its ~40 products that are either #1 or #2 in their category. Hormel has brands that are proven, and that leadership position is difficult for competitors to supplant. In addition, Hormel has a global network of distributors that few food companies can rival. Hormel's earnings-per-share actually grew during the Great Recession while most of the world was in rather dire straits, a testament to the company's defensive nature.

Final Thoughts & Recommendation

Hormel looks undervalued today in our view. The company is in a tough spot as it tries to grow without sacrificing margins given supply chain and input cost inflation pressures, as well as lower selling prices and production disruptions. With the valuation under fair value, and growth improving, we forecast 12.7% total annual returns for Hormel. These could accrue from 7% growth, with the 3.6% yield and 2.8% valuation tailwind. Given this, we boost the stock from hold to buy after Q4 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	9264	9523	9168	9546	9497	9,608	11,386	12,459	12,110	11,921
Gross Profit	1809	2158	1997	1979	1885	1,826	1,928	2,165	2,000	2,022
Gross Margin	19.5%	22.7%	21.8%	20.7%	19.8%	19.0%	16.9%	17.4%	16.5%	17.0%
SG&A Exp.	744	872	759	841	728	761	853	879	942	1,005
D&A Exp.	133	132	131	162	165	206	228	263	253	258
Operating Profit	1065	1286	1237	1138	1157	1,065	1,075	1,285	1,058	1,017
Operating Margin	11.5%	13.5%	13.5%	11.9%	12.2%	11.1%	9.4%	10.3%	8.7%	8.5%
Net Profit	686	890	847	1012	979	908	909	1,000	794	805
Net Margin	7.4%	9.3%	9.2%	10.6%	10.3%	9.5%	8.0%	8.0%	6.6%	6.8%
Free Cash Flow	848	784	813	852	629	761	770	856	778	1,010
Income Tax	370	427	432	169	231	206	217	278	221	231

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	6140	6370	6976	8142	8109	9,908	12,696	13,307	13,449	13,435
Cash & Equivalents	347	415	444	459	673	1,714	614	982	737	742
Accounts Receivable	606	591	618	600	574	702	896	868	817	818
Inventories	993	986	921	964	1042	1,073	1,369	1,716	1,680	1,576
Goodwill & Int. Ass.	2527	2738	3147	3921	3516	3,689	6,751	6,729	6,686	6,656
Total Liabilities	2138	1919	2036	2537	2183	3,478	5,718	5,767	5,710	5,431
Accounts Payable	495	482	553	619	590	645	793	817	771	736
Long-Term Debt	435	250	250	625	250	1,304	3,324	3,299	3,309	2,859
Shareholder's Equity	3998	4448	4936	5601	5921	6,426	6,973	7,535	7,735	7,993
LTD/E Ratio	0.11	0.06	0.05	0.11	0.04	0.20	0.48	0.44	0.43	0.36

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	11.8%	14.2%	12.7%	13.4%	12.0%	10.1%	8.0%	7.7%	5.9%	6.0%
Return on Equity	18.0%	21.1%	18.0%	19.2%	17.0%	14.7%	13.6%	13.8%	10.4%	10.2%
ROIC	16.5%	19.5%	17.1%	17.7%	15.8%	13.1%	10.1%	9.5%	7.3%	7.3%
Shares Out.	527	528	528	529	544	548	542	550	549	549
Revenue/Share	17.12	17.56	17.00	17.55	17.42	17.58	20.79	22.67	22.06	21.72
FCF/Share	1.57	1.45	1.51	1.57	1.15	1.39	1.41	1.56	1.42	1.84

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

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