



Research Analysts:

Konrad Piszczatowski (konrad.piszczatowski@uconn.edu)

Sophia Ma (hongmei.ma@uconn.edu)

Recommendation: **BUY**

UConn Student Managed Fund

Tyson Foods, Inc. (NYSE: TSN)

Jan 12, 2021

Target Price: \$90.51
Current Price: \$64.03
Stop loss: \$48.02 (25%)
52 Week High/Low: \$94.24/\$42.57

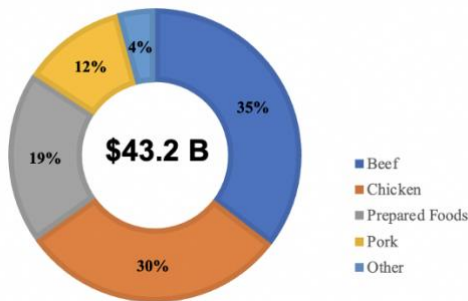
Market Cap (\$B): \$23
Dividend Yield: 2.8%
Beta: 0.84
ROE: 14.5%

P/E Ratio (TTM): 11.2
EV/EBITDA: 7.8
Debt/Equity: 0.7
EBIT Margin: 7.21%

Company Overview

Tyson Foods is one of the world's largest food companies and a recognized leader in protein. It produces around 20% of beef, pork and chicken in the U.S., with leading brands including Tyson, Jimmy Dean, Hillshire Farm, Ball Park, Wright, IBP, Aidells, and State Fair. These products are marketed and sold to national and regional grocery retailers, regional grocery wholesalers, meat distributors, and industrial food processing companies. In fiscal year 2020, about a third of revenue came from beef, another third came from the sale of chicken, and the remainder came from pork, prepared foods and international sales.

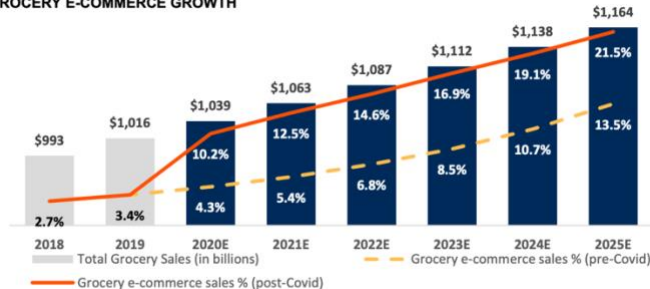
SALES BY SEGMENT 2020



Industry Outlook

Our fundamental outlook for the packaged foods and meats sub-industry for the next twelve months is positive. Covid-19 has resulted in an unprecedented shift in demand from food service to retail. One tailwind the overall sub-industry currently enjoys is higher prices due to a pull back on promotional activity. Given the outsized levels of demand and tight supply, promotional levels are down, which is leading to higher overall prices. Another tailwind is that online grocery sales have been surging during the pandemic. We forecast this trend will stick over the longer term given that manufacturers and retailers are pulling forward e-commerce investments and strengthening their overall omni-channel platforms.

U.S. GROCERY E-COMMERCE GROWTH



Source: CFRA, Supermarket News, Mercatus, and Incisiv

Investment Thesis

Strong Economic Moat – Tyson Foods is the market leader in frozen prepared chicken, breakfast sausage and hot dogs to name a few. Tyson Foods has a portfolio of over forty brands that span across the food service, industrial, and retail industry.

Global Demand for Protein – Through acquisitions, Tyson Foods has become a major international player. 90% of future growth in protein demand is expected to be outside the US. African Swine Flu has seen exports for all protein increase. Tyson's exports to China increased by 600% in Q1'20 vs. Q1'19.

Innovative Portfolio (Prepared Foods) – Tyson Foods operates in many different avenues of the food industry including: Grocery, Deli, Fast-Food, Retail, K-12, and Hospitals. Boasting an 80% household penetration rate and continuing to keep their product mix fresh, prepared foods will be a key growth area for Tyson.

Alternative Protein – The alternative protein market is valued at \$2B and has seen a consistently high YoY growth rate. Tyson Foods has recognized this and invested in 3/4 of the main sources in alternative protein: plant-based, mycoprotein, and cultured meat. Raised and Rooted is also Tyson's newest product line with "burgers" and "chicken nuggets produced from pea protein.

U.S. ALTERNATIVE MEAT MARKET



Source: CFRA, Euromonitor

Investment Risks

COVID-19- Tyson Foods has incurred \$540M direct expenses related to COVID-19 and has been involved in lawsuits over deaths related to COVID, as well as a "betting pool" scandal that managers were involved in.

Inflation Risk – Since corn and soy is directly related to feed costs, Tyson has a higher cost of goods sold if the prices of corn and soy increase. A .10 increase in corn is about a \$25M hit on the balance sheet. Recently, prices have skyrocketed.

Disease Risk – COVID-19 has proven how dangerous an outbreak can be. Livestock disease/product contamination will always be a concern for Tyson.

Financial Performance

Company Financials Fiscal year ending Sep 30										
Per Share Data (USD)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Tangible Book Value	-6.05	-10.38	-10.10	-13.66	-5.74	-5.35	-7.58	12.10	11.12	9.77
Free Cash Flow	7.37	3.45	4.83	4.18	5.25	4.24	1.54	2.15	1.37	1.08
Earnings	5.86	5.52	8.19	4.79	4.53	2.95	2.37	2.31	1.68	1.98
Earnings (Normalized)	5.77	4.18	4.89	4.85	4.15	3.32	2.30	2.14	1.65	1.80
Dividends	1.68	1.50	1.20	0.90	0.60	0.40	0.30	0.20	0.16	0.16
Payout Ratio (%)	28.00	27.00	14.00	18.00	12.00	12.00	12.00	9.00	10.00	8.00
Prices: High	94.24	94.07	84.65	75.55	77.05	45.10	44.24	32.40	21.06	20.12
Prices: Low	42.57	49.77	56.79	55.72	42.78	37.02	27.33	15.93	14.06	14.59
P/E Ratio: High	16.10	17.00	10.30	15.80	17.00	15.30	18.70	14.00	12.50	10.20
P/E Ratio: Low	7.30	9.00	6.90	11.60	9.40	12.50	11.50	6.90	8.40	7.40
Income Statement Analysis (Million USD)										
Revenue	43,185	42,405	40,052	38,260	36,881	41,373	37,580	34,374	33,055	32,032
Operating Income	3,835	2,892	3,215	3,133	2,833	2,466	1,430	1,375	1,286	1,289
Depreciation + Amortization	1,178	1,086	933.00	748.00	697.00	701.00	520.00	491.00	460.00	462.00
Interest Expense	485.00	462.00	350.00	279.00	249.00	293.00	132.00	145.00	356.00	242.00
Pretax Income	2,770	2,431	2,745	2,628	2,598	1,921	1,252	1,257	965.00	1,078
Effective Tax Rate	22.40	16.30	-10.30	32.30	31.80	36.30	31.60	32.50	36.40	31.50
Net Income	2,140	2,022	3,024	1,774	1,768	1,220	864.00	778.00	583.00	750.00
Net Income (Normalized)	2,107	1,528	1,806	1,794	1,620	1,369	836.80	785.00	610.10	683.90
Balance Sheet and Other Financial Data (Million USD)										
Cash	1,420	485.00	271.00	321.00	353.00	690.00	439.00	1,146	1,074	716.00
Current Assets	7,883	7,169	5,688	6,258	4,888	5,381	6,221	5,604	5,403	4,780
Total Assets	34,741	33,097	29,109	28,066	22,373	22,969	23,956	12,177	11,896	11,071
Current Liabilities	4,234	5,513	5,031	4,032	2,762	3,535	3,797	3,010	2,830	2,374
Long Term Debt	10,791	9,830	7,962	9,297	6,200	5,975	7,535	1,895	1,917	2,112
Total Capital	27,465	26,158	22,684	20,762	15,903	16,396	17,082	8,641	8,474	7,869
Capital Expenditures	1,199	1,259	1,200	1,069	695.00	854.00	632.00	558.00	690.00	643.00
Cash from Operations	3,874	2,513	2,963	2,599	2,716	2,570	1,178	1,314	1,187	1,046
Current Ratio	1.86	1.30	1.13	1.55	1.77	1.52	1.64	1.86	1.91	2.01
% Long Term Debt of Capitalization	40.60	37.60	35.10	44.80	39.00	36.40	44.10	21.90	22.60	26.80
% Net Income of Revenue	5.00	4.80	7.60	4.60	4.80	2.90	2.30	2.30	1.80	2.30
% Return on Assets	7.07	5.81	7.03	7.76	7.81	6.57	4.95	7.14	7.00	7.38
% Return on Equity	14.40	15.10	25.90	17.60	18.30	13.20	11.30	13.80	10.50	13.50

Valuation Assumptions

We recommend a BUY rate for Tyson Foods, Inc. based on a target price of \$90.51 per share. This target price reflects a 41.36% margin of safety based on its closing price of \$64.03 on Jan 8, 2021. We calculated WACC as 5.29% to discount our projected cash flows and assumed a terminal growth rate of 1.7%, 4% of dividend growth rate and 9x exit EV/EBITDA. We used the Perpetuity Growth, terminal EV/EBITDA and DDM to calculate the final target price of \$90.51.

Scenario	Expected Price	Weights	Value
Perpetuity	114.31	33%	\$37.72
EBITDA	76.23	33%	\$25.15
DDM	83.75	33%	\$27.64
Target Price			90.51
Current Share Price			64.03
MOS			41.36%

WACC	Terminal Growth					WACC	EBITDA Multiple				
	1.00%	1.50%	2.00%	2.50%	3.00%		7	8	9	10	11
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6.00%	\$ 76.84	\$ 86.42	\$ 98.39	\$ 113.78	\$ 134.31	6.00%	\$ 55.66	\$ 64.36	\$ 73.07	\$ 81.77	\$ 90.48
5.50%	\$ 88.46	\$ 100.66	\$ 116.34	\$ 137.26	\$ 166.54	5.50%	\$ 57.42	\$ 66.34	\$ 75.25	\$ 84.16	\$ 93.08
5.00%	\$ 102.98	\$ 118.97	\$ 140.28	\$ 170.12	\$ 214.89	5.00%	\$ 59.23	\$ 68.36	\$ 77.49	\$ 86.62	\$ 95.75
4.50%	\$ 121.65	\$ 143.38	\$ 173.79	\$ 219.42	\$ 295.46	4.50%	\$ 61.10	\$ 70.45	\$ 79.80	\$ 89.15	\$ 98.50
4.00%	\$ 146.54	\$ 177.55	\$ 224.06	\$ 301.58	\$ 456.61	4.00%	\$ 63.02	\$ 72.59	\$ 82.17	\$ 91.74	\$ 101.32

ESG Considerations

Tyson is average among 89 companies in the food products industry with a MSCI BBB rating. According to MSCI, TSN is not a ESG leader in any specific area, average in corporate governance, corporate behavior, water stress, health & safety, labor management, opportunities in nutrition & health, packing material & waste and product carbon footprint while an ESG laggard in product safety & quality and raw material sourcing.

Industry: Food Products

Country/Region: United States of America

MSCI
ESG RATINGS



CCC	B	BB	BBB	A	AA	AAA
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ESG LAGGARD	AVERAGE	ESG LEADER
PRODUCT SAFETY & QUALITY RAW MATERIAL SOURCING	CORPORATE GOVERNANCE CORPORATE BEHAVIOR WATER STRESS HEALTH & SAFETY LABOR MANAGEMENT OPPORTUNITIES IN NUTRITION & HEALTH PACKAGING MATERIAL & WASTE PRODUCT CARBON FOOTPRINT	Tyson is not a leader on any of the Key Issues that we evaluated for its industry.