

UConn Student Managed Fund Analyst Report

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The Hershey Company NASDAQ: HSY		Recommendation: BUY
Target Price: \$339.63	Market Cap: \$45.7642B	P/E Ratio: 29.14
Current Price: \$223.43	Dividend Yield: N/A	EV/EBITDA: 19.5x
Stop Loss:	Beta: 0.36	EBITDA Margin: 25.3%
52 Week High/Low: 175.08 – 241.45	ROE: 56.46%	Gross Margin: 43.27%

Company Background:

The Hershey Company, together with its subsidiaries, engages in the manufacture and sale of confectionery products and pantry items in the United States and internationally. The company operates through three segments: North America Confectionery, North America Salty Snacks, and International

Industry Outlook:

The industry is not as fast-growing as the technology industry because sweets and other confections have been in the market for quite a while. The manufacturers of confectionery products are offering a wide range of products such as chocolate, sweets, cookies, ice cream, and other products.

Investment Thesis:

Strong FCF, resistant business model, growth industry, innovative products.

Investment Risks:

Inflation risk: Higher raw materials input cost
 Operation risk: Disruption to supply chain could impair the ability to produce products
 Regulation risk: Governments could mandate increased regulations to stem obesity
 Reputational risk: West African countries which supply cocoa may utilize child labor

Financial Performance

Net sales continued growth from 2013 to 2021. Income indicators have been growing for the past three years. On the Q3 earnings call 2022, Hershey's revenue grew 16% year over year to \$2.73 billion, topping the analyst consensus estimate.

Valuation: Discounted Cash Flow Analysis

Used the financial data from 2017 to 2021 the five years data as input and ended up coming to the estimated share value of about 340. Compared with the current price closed yesterday at 221.62 dollars. It's underpriced.

Assumptions:				
Rev Grwth =	4.88%		WACC =	5.57%
Op Inc %=	22.09%		Rf =	3.82%
Tax Rate =	15.58%		Rm - Rf =	5.30%
Depreciation % =	0.00%		Beta =	0.36
Capex % =	4.98%		Cost of Equity =	5.73%
Change WC =	0.84%		Cost of debt =	4.96%
TV Growth Assumption =	2.50%		MV	44888.50

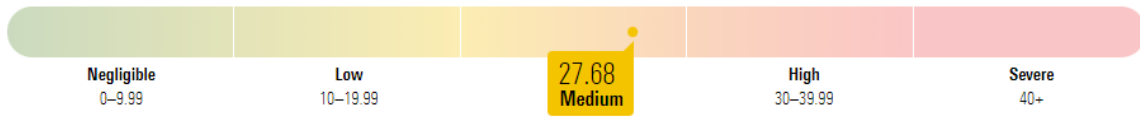
Sum of PV FCF =	11,940
Future Value TV	86,652
PV Terminal Value =	62,604
EV =	74,544
less NET Debt	4,886
Market Value of Equity =	69,658
Shares Outstanding =	205.1
Estimated Share Value	339.63
Current Price	223.43
Margin of Safety	34.21%

Relative Valuation

Also compared Hershey with XLP which is the ETF of the consumer staple sector and SP500 over about last one year. The XLF and sp500 performed badly. their returns are actually negative but Hershey company has a relatively better performance which is also a good point for investment.

ESG:

ESG Risk Rating



Top 3 Material ESG Issues

Product Governance
Overall

Resource Use
Overall

Carbon
Own Operations