

Company: Archer-Daniels-Midland Company Ticker: NYSE:ADM Current price: \$81.59 Industry: Consumer Staples Sub-industry: Agriculture Products			
Target Price: \$116	TTM P/E: 10.59%	Beta: 0.79	Market Cap: \$ 44.01B
Stop Loss: \$65.3	Forward P/E: 12.26%	Credit Rating: Moddy's	Avg Vol (12M): 1.15% 2.13%
52 Week High/Low: \$98.88-\$70.02	EPS: 7.70%	Rating Outlook: A2/A	Dividend Yield: 2.21%

Company Background:

Archer-Daniels-Midland Company procures, transports, stores, processes, and merchandises agricultural commodities, products, and ingredients in the United States, Switzerland, the Cayman Islands, Brazil, Mexico, Canada, the United Kingdom, and internationally. The company operates in three segments: Ag Services and Oilseeds, Carbohydrate Solutions, and Nutrition. It procures, stores, cleans, and transports agricultural raw materials, such as oilseeds, corn, wheat, milo, oats, and barley. The company also engages in the agricultural commodity and feed product import, export, and distribution; and structured trade finance activities. In addition, it offers vegetable oils and protein meals; ingredients for the food, feed, energy, and industrial customers; crude vegetable oils, salad oils, margarine, shortening, and other food products; and partially refined oils to produce biodiesel and glycols for use in chemicals, paints, and other industrial products. Further, the company provides peanuts, peanut-derived ingredients, and cotton cellulose pulp; sweeteners, corn and wheat starches, syrup, glucose, wheat flour, and dextrose; alcohol and other food and animal feed ingredients; ethyl alcohol and ethanol; corn gluten feed and meal; distillers' grains; and citric acids. Additionally, the company provides natural flavors, flavor systems, natural colors, proteins, emulsifiers, soluble fiber, polyols, hydrocolloids, and natural health and nutrition products, including probiotics, prebiotics, enzymes, and botanical extracts; and other specialty food and feed ingredients; edible beans; formula feeds, and animal health and nutrition products; and contract and private label pet treats and foods. It also offers futures commission merchant; commodity brokerage services; cash margins and securities pledged to commodity exchange clearinghouses; and cash pledged as security under certain insurance arrangements. The company was founded in 1902 and is headquartered in Chicago, Illinois.

Industry Outlook:

We have a positive fundamental outlook for the agricultural products sub-industry over the next 12 months due to 1) tight global crop supplies; 2) strong global demand for food, feed, and fuel; 3) elevated crop prices; and 4) new growth opportunities in areas like plant-based foods and biofuels. Overall, we believe the operating environment will remain favorable for the agricultural products sub-industry in 2023. We think global crop supplies will remain tight in 2023 due to 1) tight global fertilizer supply, which will likely limiting crop planting; 2) severe dry weather in many parts of the world, including Europe, the U.S., and South America; and 3) continued industry-wide supply chain disruptions, including labor shortages and transportation bottlenecks. Global fertilizer supply levels are tight, partly due to the Russia-Ukraine war, noting Russia is a major supplier of the gas used to produce nitrogen fertilizers. In South America, many regions are experiencing the third straight year of La Nina, which is causing record temperatures and dry weather. Also, global supply chain disruptions caused by record inflation and pandemic-related lockdowns in China could cause a supply/demand mismatch. Russia's invasion of Ukraine has further tightened global crop supply. Based on data from the USDA, Russia and Ukraine make up about 20% of the world's corn exports, 28% of the world's wheat exports, and nearly 80% of the world's sunflower oil exports. The U.S. is not a major trade partner to Russia or Ukraine, but many countries across Asia, the Middle East, and Europe are. As a result, we could expect many nations turning to other large exporting nations (e.g., U.S., Brazil) to meet domestic demand.

Investment Thesis:

1. ADM expects a \$6.00 to \$7.00 EPS baseline by 2025, up from its 2021 EPS baseline of \$4.00 to \$4.50 and 2014 EPS baseline of \$3.00. Much of this growth will stem from the Nutrition segment, which is expected to grow operating income to \$1.25 billion to \$1.50 billion by 2025, representing a CAGR of about 15% to 20%.
2. The 2025 earnings baseline also incorporates projected share repurchases of about \$5 billion, as well as a healthy balance sheet and credit rating. Sustainability trends are powering structural changes to the industry. Over the next decade, we see ADM capitalizing in areas like renewable green diesel (RGD), biosolutions, sustainable aviation fuel (SAF), and alternative protein.
3. The RGD market is increasing by about one billion gallons per year and expected to reach five billion by 2025. Regarding SAF, the U.S. gov't recently set goals that would support demand for some three billion gallons of SAF per year by 2030 (up from the current 4.5 million gallons per year). On alternative protein, ADM expects the global market to hit \$125 billion by 2030. Following 45% EPS growth in 2021 and 51% growth in 2022, we forecast EPS falling by 10% in 2023 to \$7.07.

3-5 take away from last quarter investor call transcript:

1. Continue to expect double-digit returns from this important initiative; improve processes and expand capabilities across the value chain.
2. In 2023, the company will continue to expand the breadth and scope of this work, which is empowering their businesses to deliver profitable revenue growth and higher margins.
3. BioSolutions is growing within carbohydrate solutions. Alternative proteins and microbiome are pillars of nutrition. With these efforts maturing in the businesses, we are able to focus on other opportunities. One of the most important is decarbonization, which is a critical component of the company's sustainability growth platform and is driving the evolution of carbohydrate solutions business. Goal is to reduce the carbon intensity of our assets and value chain in order to be the preferred partner in low-carbon intensity feedstocks for a growing demand base.

Financial performance:	Discounted Cash Flow:
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	2018	2019	2020	2021	2022
Revenue	64,341.00	64,656.00	64,355.00	85,249.00	101,556.00
Operating Profit	1,924.00	1,587.00	1,806.00	2,938.00	4,238.00
Net Income	1,810.00	1,379.00	1,772.00	2,709.00	4,340.00
Revenue Growth (%)	5.80%	10.50%	15.50%	22.50%	29.10%
EBITDA%	17.00%	9.90%	7.80%	41.40%	33.90%
Operating Profit %	2.80%	2.10%	2.80%	3.20%	4.30%
Net Income Margin	2.80%	2.10%	2.80%	3.20%	4.30%
D/E	44.10%	51.40%	55.10%	46.50%	41.80%
EPS	14.30%	-23.50%	29.10%	52.10%	61.00%
PE Ratio	11.40%	17.44%	15.25%	12.58%	10.40%
Current Ratio	1.7x	1.6x	1.5x	1.5x	1.5x
ROE	9.70%	7.20%	9.10%	12.80%	18.40%
ROA	3.00%	2.30%	2.40%	3.50%	4.60%
Dividend/share	5.70%	4.60%	3.70%	2.80%	5.40%
FCF	2.00%	0.80%	1.60%	2.00%	1.40%

	2018-2022	2023-2031
Avg Revenue Growth	18.6%	29.1%
Avg Gross Margin	6.9%	7.6%
Avg EBITDA Margin	28%	33.9%
Avg NOPLAT Margin	-	-
Avg FCF/Margin	24%	23.4%
Tax Rate	-	25%
WACC	-	4.8%
Perpetuity Growth Rate	-	3%

Analyst Opinion

Buy: ___	Hold: ___	Sell: ___
	Rating	Target
S&P Net Advantage	Buy	110
Bloomberg	Buy	112
Yahoo Finance	Buy	105

Relative Valuation							Total Return %					
Company Information		Financial Metrics		Valuation Metrics		Operational Metrics				ADM	Industry Sec	S&P 500
Ticker	Company		Market Cap	P/E	P/S	P/B	P/FCF					
ADM	Archer-Daniels-Midland Company		44.01B	10.59	0.43	1.91	54.94	YTD	4.85%	-3.36%	-17.15%	
BG	Bunge Limited		14.20B	9.28	0.21	1.69	-	2021	11.53%	5.2%	-13.83%	
INGR	Ingredion Incorporated		6.43B	13.5	0.81	2.13	-	Last 3 years	7.09%	9.11%	10.43%	
PEP	PepsiCo, Inc.		238.15B	27.22	2.76	14.12	-	Last 5 years	8.39%	9.54%	10.48%	

*Industry Avg. includes companies listed

CSR Characteristics

	ADM	Industry
ESG Disclosure	22.79	23.88
Governance Disclosure Score	4.9	5.74
Social Disclosure Score	9.7	9.68
Environmental Disclosure Score	7.9	7.32

-Prepared by MSFRM Fund 2 (2/19/2023) using Bloomberg, S&P Net Advantage, Morningstar, Yahoo Finance