# Tyson Foods, Inc.(TSN)

Sector: Consumer staples
Price: 60.74$
Market Cap: 22.12B$
P/E ratio: 10.37
Dividend: 1.78$ yearly – 2.93%

## Key information

139,000 employees
11,000 independent farmers
Largest US food company
They sell 22% of all beef, 16% of all pork and 21% of all chicken commercialized in United States
Dividend yield has never been so high in their entire history
Supplier to all biggest fast food chains, McDonald's, Yum! Brands, Burger King, Wendy's
They are present in all the biggest supermarket chains, included WalMart and Kroger
They provide meat and processed food for restaurants, Army, schools and prisons
Great management and margins control
They have a lot of lawsuits for different problems including

environmental impact, undocumented immigrant workers, animal welfare, worker's rights and price manipulation
High political influence, they are known for having contacts in multiple levels, the most famous being the president Bill Clinton

# STRENGHT POINTS

Their best advantage is not growing animals, they are a food processor not a farming company, this gives them multiple advantages: not having to care about animals well being, not having to own or rent huge spaces for the animals, they don't have to worry about animal diseases or deaths, the only thing they breed are the chickens, they hatch their own chickens, then they give them to the farmers along with the feeding mixes and then they get the chickens back as soon as they have grown. This gives them full control over the quality of their chickens and their feeding, while outsourcing the growing and all related problems. For the beef and pork, they just buy them at local markets and only process them.

The fact that their business is basically turning a commodity into a final product give them the best position in the market, because they don't have the biggest problems and at the same time they keep the best profit margin for their own.

They are the biggest US food processor, giving them a huge visibility, a great market positioning and market presence, and an enviable branding and sales. If we look at their sales they sell almost twice their market cap of products yearly, giving them a huge cash flow in very short time. They are ranked number 4 in US most valuable food brands.

Dividend has never been better, the yield is not huge but it's interesting, and the company has been very focused on raising the dividend in last 10 years. They have just announced another raise of 5.95%, the payout is very low, under 30% so they have a lot of room for raising the dividend more, they have raised the dividend for 9 years consecutively, and the 5 years CAGR is 36.59%. Next EX- Div date will be 30/11 and they dividend will be paid on 15th of December.

Their size and branding allowed them to acquire the best customers in the sector and institutional customers, including McDonald's, Yum! Brands, Wendy's, Burger King, Kroger, Walmart, retail restaurants, schools, prisons and the Army. This allowed them to gain enough influence to endure all the problems they have related to the lawsuits, which are noting more than a mosquito against a giant. They are very involved into charity projects, veterans aid, and every other thing that can give them influence they can use when needed. They have always been accused of lobbying, funding politicians voting campaigns and influencing all levels of politics and justice, while this sounds not that great, from an investor's point of view it's very good. No politician will allow the company that feeds their Army to have legal issues. They have contributed to both Biden and Trump presidential election campaign.

The company ownership is very strange and interesting, because the original founding family still owns almost 20% of the whole business, giving them the lead of the company. To ensure they don't lose control over the company they have created a unique share system, they own almost all class B shares (non publicly traded), which are similar to class A shares (publicly traded) except they receive slightly less dividends but have a lot more voting power. This while being a little worse thing because they gave up part of the dividends, allowed them to keep control over the company because they have more than 77% of the votes. When a family had control over a company for like 90 years, it's a very good thing for investors that they keep doing that because they are doing a great job and it's their own interest that the company will succeed since they own 20% of it.

They make good use of their plants, using them at a capacity of 85-90%, this means they use them efficiently while still having a little margin in case of an unforeseen sales boost. They are also expanding internationally, and are buying competitors in new markets, they already have a good presence in China and Japan and started an aggressive expansion in Europe.

They also invest in new technologies and meat alternatives, they have invested in Beyond Meats and then sold their investment when they created their own meat free or mixed products. They made a very good gain on that investment. They are developing cultivated meat, especially for kosher and Muslim markets. They also have a brand focused on burgers made with less meat and peas protein, and other products developed for flexatarians and vegetarians.

The global lockdown opened a new market for them too, boosting the online sales by more than 120%, while still keeping good sales in stores too because it's food and people needs it. In fact, the restaurants, schools, fast food closing didn't affected their financials that are growing very good year by year.

The management has a very good costs control, at the point that even in the few years when revenue dropped, the operating margins were still going up, both by cost reduction, investments sales and a good tax benefits use. While the margins are variables mainly due to the commodity prices which they depend on, the great management allowed them to have a very interesting growth in last 10 years, and growing their margins in the last 10 years.

Even with a growing vegan and vegetarian slice of population, the worldwide population growing rate is enough to say that they won't have problems with the customers pool reducing, giving us a good opportunity to buy an underrated company with a growing business. Plus they are developing new products with less meat or without any meat at all, creating a new market for them and potential growth in that sector too.

# FINANCIALS

1.42B$ cash – 3.90$ par share

15.3B$ retained earnings – money they have and they can use any time for company's growth (companies usually use them for investing or just keep them in case of need, they still issue debt because it's cheaper to use other people's money than your own)

Book value par share on most of the investing websites is between 42$ and 43$ which is a little low compared to the price, but this is not considering the money the company is reinvesting in share repurchase, dividends and the future growth. Plus we must consider that all the investments made to expand their business are still maturing and the potential future growth is very nice.

4.1B$ of treasury stock they bought back during last years, same as retained earnings they could just sell them back on the market and cash the money in. They will never do that because they are very focused on the returns for shareholders and reselling the shares would raise supply and drive price down.

Debt is 10.8B$ which is not very low, but we must consider that a good slice of this debt has to be paid in 15/20 years. Their debt rating has been stable in the last years and the financials are fine and can cover it. In the next future the debt is not so high, and they also have a credit line for 1.5B$. They will have to repay only 3.15B$ in the next 5 years, and 1.5B$ of it in 2022, giving them enough time and I don't worry about their ability to repay it. Which in most part will not happen because most of companies just pay interests and refinance debt because it's always better to use other people's money to grow your business, while keeping your own money in case of need.

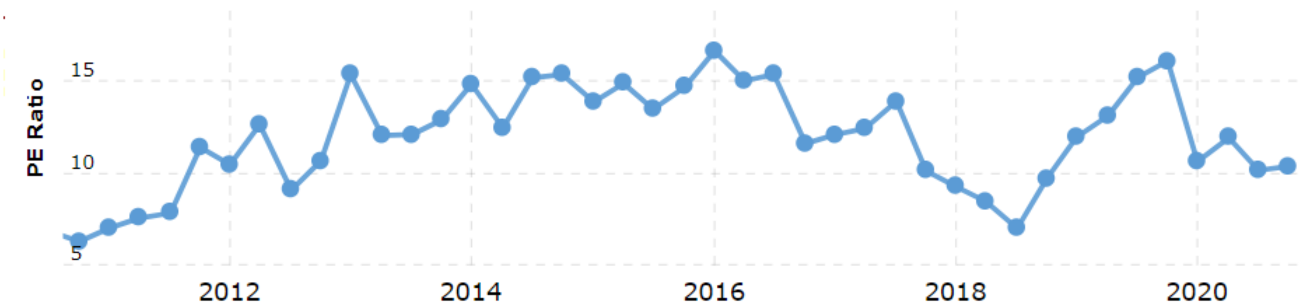
Fair value is not very hard to calculate for this kind of businesses, most of the industry has plants, equipment and hardware that can be calculated a lot easier than technologies for example. That's another reason I prefer this kind of businesses to tech and IT companies. I'd say fair value is around 80$, giving us a good discount of 30% over the actual price, which is very good considering the company's strenghts and size.

P/E has been kinda stable historically, it was usually between 15/16 and 10/11, right now we're buying it at 10.37 but we must remember that we're buying a growing company and that the average P/E is 13.91.

Considering the actual ratios and the overall market situation I estimate a 1 year price estimate above 80-82$ which means a 35% gain in the first year – due to the very low price right now – and an annual gain around 20% for the next 10 years.

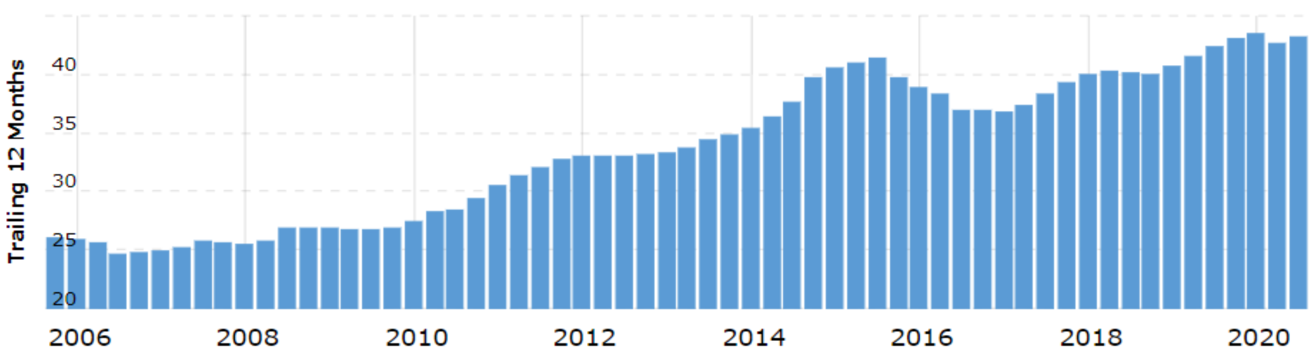
# KEY GRAPHICS

## P/E ratio 2010 - 2020

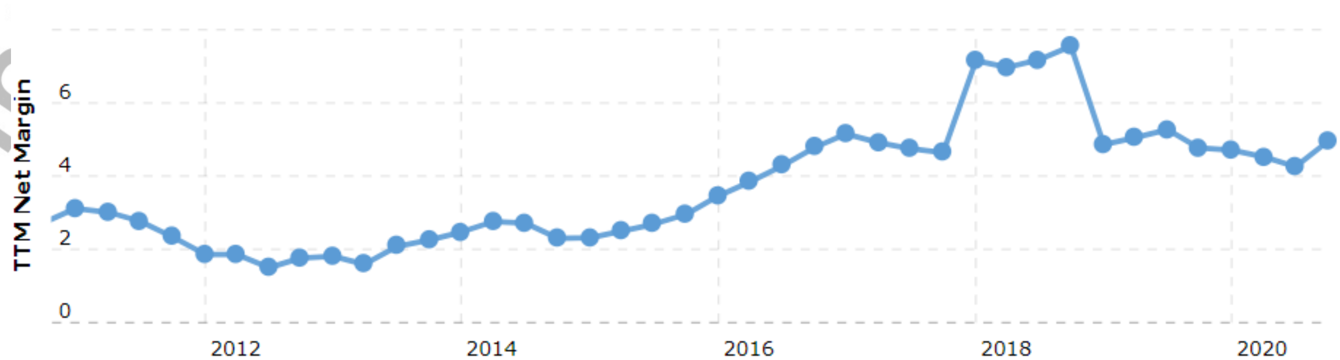



The graphic shows a good trend in P/E which, except for a couple spikes, have always been around 14. Today's 10.37 entry point is a very interesting one.

## Revenue 2005 - 2020




## Net margin 2010 - 2020



Revenue has been in upward trend, with some problems but the trend is clearly upwards.

The net margin has been growing during last 10 years, showing the results of a good management and an efficient cost control.

# POTENTIAL THREATS

Non ethical company, this could scare some investors and drive them away, real investors will not worry about this because all they want is to make money, but beginners could be scared by all the lawsuits, which are very low anyway compared to the company's size and cash flow.

Food sector is a little riskier, they are subject to a lot of local and international laws, and must be careful about food safety, the company has been around enough to know that so I wouldn't worry much about this.

Management is kinda new, a lot of the managers are new and some of them like the CEO come from a whole different sector (he worked for Alphabet before) so it's a little bet the company is doing on this management, I think they'll succeed especially because they are lead by Tyson family.

The company is very exposed to commodity prices, since they buy a lot of meat, grains, spices etc, and this could lead to higher costs in products manufacturing. That already happened and the company was able to solve the problem, the easiest solution is just dropping the cost difference onto the final customer by raising prices, but this could affect their business anyway. They limit this risk by hedging themselves using options and futures, so it's a risk but not a huge one.

They have been criticised recently for their Covid-19 crisis management, at the beginning the company have completely refused all workers and doctors requests to install social distancing devices, to provide masks and other PPE, and declared that even if they protect the workers they aren't protected outside the factories. This lead to a peak of infection in their factories, where almost ¼ of the workers was positive, and forced them to close some factories or work at lower capacity. After they saw the mistake and installed all the PPE and hired nurses for temperature check and testing the workers the situation went a little better. This until a couple days ago a news came out saying there were some factory managers that were betting on how many workers will be infected and completely leaving the factory because they were scared of being infected, leaving the whole factory management to production lines supervisors, which were obviously not trained for that job. The company suspended immediately these managers and started an internal audit. This is not the first big scandal they're involved into, before 2016 their workers weren't able even to get a bathroom pause, and they were forced to wear adult diapers because they were not allowed to leave the production lines for any reason. In 2016 the company announced they were scheduling bath pause times in order to stop this violation of workers and human rights.

# INVESTMENT FUTURE

If you don't have problems in investing in a non ethical company, this is a very good opportunity to get a good gain in short term and to leave it grow a lot in the future. We're talking about a big company with a great history so we can't expect it do double our money in the next year, but we can expect out money to stay safe, thinking that the price will not drop under 50$. The gain we can expect is 30% in the first year, maybe even a little more if they stop attracting bad attention with unethical practices, but the value in their business is undeniable and the potential is very good.

Actual price around 60$ is very interesting, I will not risk it and will start buying, I'll probably buy half of my planned investment at this price and will make 2 more steps, with 25% more at 57.5$ and the last 25% at 55$. I don't think the price will drop that much, but better have a plan in case that happens.

Investment timeline goes from a minimum of 5 – 10 years to the infinite, as long as the company's business doesn't deteriorate. A good sign of the business going bad could be keeping an eye on the Tyson family's company share, if they start dumping their shares that could be a good exit signal. I'm not expecting that to happen anyway, but it could be a good metric. If the company's business is safe and they keep gaining and growing, then just keep your positions open and look at the profits coming in and enjoy the dividends. Obviously, dividend reinvesting is always a great idea for long term investi