

HSY
Financial Analysis Report

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HERSHEY Co

Ticker Name: HSY

Current Price: \$187.17

Recommendation: Buy

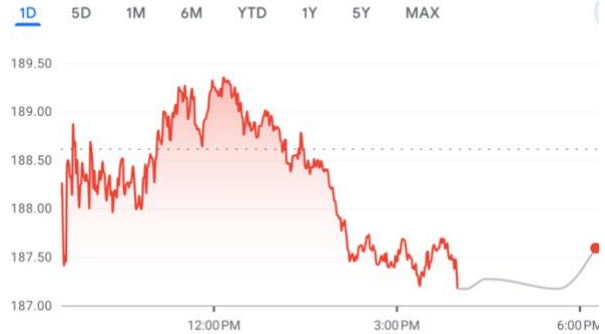
Target Price: \$210

Industry: Specialty Food

Stock Exchange: NYSE

\$187.17 ↓ 0.76% -1.44 Today

After Hours: \$187.59 (↑ 0.22%) +0.42
 Closed: Feb 27, 6:15:35 PM UTC-5 - USD - NYSE - Disclaimer



Introduction:

An American multinational confectionery company headquartered in Hershey, Pennsylvania, USA, is one of the largest chocolate factories in the world. With over 125 years of history, is a well-known global confectionery and snacking powerhouse. Established in 1894, the company has built a legacy around creating moments of goodness with its iconic brands and beloved products, which include a wide range of chocolate, sweets, mints, and other great-tasting snacks.

Highlights:

We issue buy recommendation with a 1-year target price of \$210 per share, representing 12% upside from current stock price of \$187.17 per share. Our valuation is based on Free Cash Flow Model and peer evaluation. Our recommendation lays on the following key factors.

Hershey growth rate is larger than industry average:

HSY released their annual results two days ago, and the 2023 results were in line with investors' forecasts, with revenue growing to 11.65 billion. Yahoo reported that it expects HSY to grow at 3% next year, compared to the growth rate in previous years, although HSY's revenue growth has slowed this year, compared to the industry average of 2.5%, HSY is still above average. Looking at the chart, Yahoo is forecasting HSY's EPS to be 9.6, a 6% increase from the current 9.05, which also increases the likelihood that the stock price will rise.

Revenue Estimate

CURRENCY IN USD	Current Qtr. (Mar 2024)	Next Qtr. (Jun 2024)	Current Year (2024)	Next Year (2025)
No. of Analysts	17	17	21	21
Avg. Estimate	3.11B	2.48B	11.48B	11.83B
Low Estimate	2.98B	2.41B	11.39B	11.7B
High Estimate	3.22B	2.56B	11.77B	12.22B
Year Ago Sales	2.99B	2.5B	11.6B	11.48B
Sales Growth (year/est)	4.00%	-1.10%	2.80%	3.10%

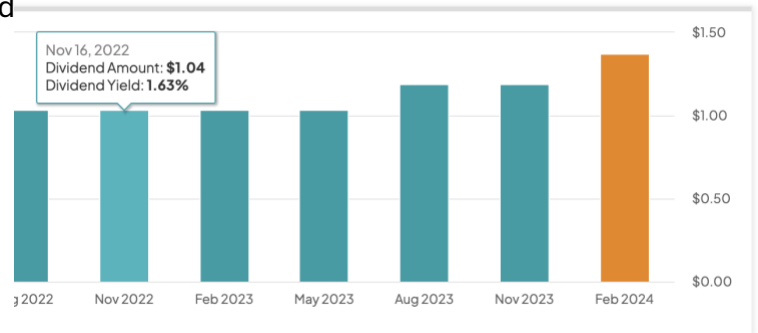
Earnings Estimate

CURRENCY IN USD	Current Qtr. (Mar 2024)	Next Qtr. (Jun 2024)	Current Year (2024)	Next Year (2025)
No. of Analysts	20	20	23	23
Avg. Estimate	2.79	1.73	9.59	10.21
Low Estimate	2.56	1.49	9.07	9.78
High Estimate	3.09	1.87	9.91	10.64
Year Ago EPS	2.96	2.01	9.59	9.59

Change in Analyst ratings:

As you can see from the graph, there has been a significant change in analyst ratings from September 2023 to January 2024. Initially, there were no "sell" ratings and most were "buy" and "hold" ratings. By January 2024, however, a "hold" rating had risen sharply and a "sell" rating had emerged, which could indicate that analysts were becoming more cautious about HSY's future performance. Investors who hold stocks still benefit from quarterly dividends and potential price appreciation. The \$5.48 annualized dividend is a testament to HSY's strong financial position and commitment to returning value to shareholders. Steady or growing dividends can be attractive to investors, especially those seeking a regular source of income. That has also helped lift share price.

Rating	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Strong Buy	0	0	0	0	0
Buy	14	14	12	4	5
Hold	12	14	16	14	29
Sell	0	0	0	0	2
Strong Sell	0	0	0	0	0
Total	26	28	28	18	36



Next 5 year forecasted cash flow:

To project HSY's financial performance from 2024 to 2028, we analyzed past performance and current market conditions to establish a set of reasonable assumptions. We expect steady revenue growth of 5.4% per year, in line with the historical average, adjusted for expected market expansion. We forecast that cost of goods sold will remain at approximately 52% of revenue, reflecting efficiency gains offset by expected inflationary pressures. SG&A expenses are expected to grow in line with revenue, remaining at 22% of the total, in line with the historical average. Cause the efficiencies of scale and strategic initiatives aimed at cost management, we expect our EBITDA margin to improve slightly to 26% by 2028. Depreciation is expected to maintain its historical average pace of 5% per year, while we expect interest and tax expenses to remain stable, reflecting current debt levels and tax regulations.

Market Cap	38,173,313,265
P/E Ratio	20.68
Forward P/E 1 Yr.	19.67
Earnings Per Share(EPS)	\$9.05
Annualized Dividend	\$5.48

In projecting HSY's balance sheet from 2024 to 2028, we assume that other current assets will grow in proportion to projected revenue growth of 3% per year, reflecting higher cash balances from improved earnings and effective working capital management. We expect property, plant and equipment (PPE) to increase by 5% annually, in line with the company's capital expenditure plans to support expansion. For intangibles, we use a historical five-year average amortization to forecast the volume of intangibles,

which includes additional investments in intellectual property and potential acquisitions. In terms of liabilities, we forecast that current liabilities will expand in line with the growth of current assets, while long-term debt will remain stable due to conservative financing strategies, with regular repayments and new issuance trending towards balance. We expect shareholder equity to grow steadily in line with retained earnings and corporate profits, assuming that the dividend payout ratio remains at its historical average of 48%. We can get retained earnings that will increase in the future.

By using these assumptions, we can get the income statement and balance sheet for the next five years. HSY's projected balance sheet from 2024 to 2028 shows a solid financial position, with total assets

excluding surplus funds
growing from 12,408 in 2024

Closing the Balance Sheet										
Assets w/out SF	8140.359	9131.877	10412.201	10948.805	11935.7	12408.73746	12996.03473	13611.50665	14256.97567	14934.38787
Liabs. Eq w/out AFN	8140.397	9131.819	10412.222	10948.882	11935.68	12422.62332	13052.00405	13711.37751	14357.5145	15023.85226
Surplus funds	0.038	0	0.021	0.077	0	13.88586063	55.96931846	99.8708655	100.538829	89.46439169
Additional funds needed	0	0.058	0	0	0.02	0	0	0	0	0

to 15,023 in 2028. Surplus funds are expected to be positive every year, starting at about 10.89 in 2024, with a positive value in the surplus funds row, indicating that HSY has excess funds after taking into account its projected liabilities and equity. It also indicates that the company's operational efficiency and ability to generate more assets are more than required to pay down debt. No additional funds will be required throughout the forecast period, underlining the company's self-sustaining growth and prudent financial management.

Expected free cash flow will also increase:

FCF represents the amount of cash a company generates after deducting cash outflows to support operations and maintain its capital assets. This is the amount of cash a company can generate after it has allocated the funds needed to maintain or expand its asset base, and it is important because it allows the company to pursue opportunities to increase shareholder value. HSY's FCF showed \$1.552 billion at the end of November 2023, and Hershey's free cash flow statement grows steadily as annual revenue grows, we assume the annual growth rate will be 3%, indicating that the company is generating more cash than it needs to fund its operations and capital expenditures. To calculate the weighted

average cost of capital, we use the CAPM to calculate the cost of equity in our model. And we add the market premium in the model cause we need add the compensation in reality. Use this model,

HSY beta	0.36									
risk free rate	4.01%	Three year bond								
Market rate	7.32%	HSY bond rating is A, and the yield in moody is 5.32%. Assume it need compansate 2%								
market risk premiur	3.31%									
CAPM	5.201600%	cost of debt	4%	mkt capitaliza	38173.311	tax rate	0.14			
WACC	5.02%									
Growth rate	3.00%									

we calculate that the free cash flow will increase along the time. This can also lead to increased dividends, share buybacks or other shareholder-friendly actions, which in turn can boost the share price. This can also

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Projected Free cashflow										
EBIT(1-T)	1542.306544	1696.108557	1931.581003	2238.108942	2269.943252	2397.749784	2533.120869	2676.498277	2828.349577	
Depreciation&Amortization	294.9	315.0	379.0	403.0	419.4	449.4	481.1	514.5	549.7	
Capex	(234.1)	(563.5)	(283.3)	(513.0)	(542.9)	(574.6)	(608.2)	(643.7)	(681.3)	
OCA	(210.1)	(80.5)	(224.3)	(591.2)	219.8	(217.9)	(235.7)	(254.7)	(275.3)	
OGL	(158.8)	(263.8)	1,009.5	(446.8)	(62.8)	84.8	87.5	90.4	93.4	
FCF	1234.254544	1103.247557	2812.377003	1090.130842	2303.39457	2139.286571	2257.873181	2382.954754	2514.886399	
Terminal Value										128381.4186
FCF+TV	1234.254544	1103.247557	2812.377003	1090.130842	2303.39457	2139.286571	2257.873181	2382.954754	2514.886399	130896.305
Enterprise Value	\$110,516.03									
Excess Cash	493.3									
Company Value	\$111,009.29									
Debt Value	3,487.5									
Equity Value	\$107,521.76									

increase the estimated intrinsic value of the company and thus its share price. A positive and stable or

increasing FCF indicates that the company is in good financial shape, which can be attractive to investors, leading to higher demand for the stock and possibly a higher share price.

Ratio Analysis:

From the figure, we calculate the financial ratio using own assumption for next 5 years. The Current Ratio measures a company's ability to pay short-term obligations with short-term assets. An increasing current ratio over time typically indicates improving liquidity. The Inventory Turnover Ratio indicates how many times a company's inventory is

sold and replaced over a period. A consistent or slightly increasing ratio can signify effective inventory management and product demand. Accounts Receivable Days shows the

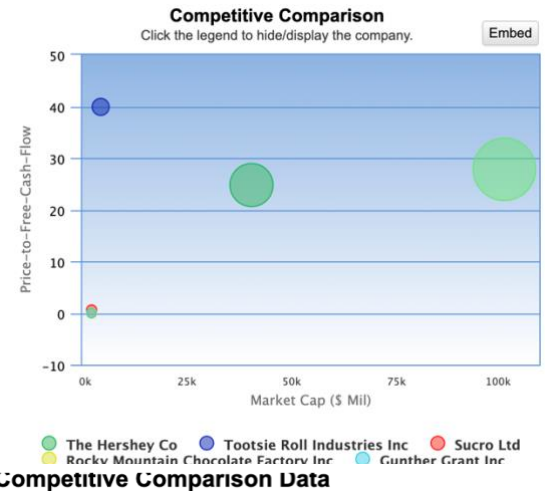
Financial Ratio Analysis	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current Ratio	1.05	1.57	0.90	0.80	1.09	1.37	1.60	1.76	1.86	1.94
Quick Ratio	0.53	0.93	0.40	0.36	0.54	0.69	0.83	0.93	1.00	1.05
Cash Ratio	0.25	0.60	0.13	0.14	0.16	0.32	0.38	0.42	0.43	0.44
Inventory Turnover Ratio	5.00	4.31	4.66	4.72	4.26	4.57	4.51	4.46	4.41	4.35
Acct Receivable Days	25.98	27.55	27.32	24.91	36.88	28.53	30.53	32.53	34.53	36.53
Acct Payable Days	49.37	51.00	54.91	63.92	69.03	57.65	55.65	53.65	51.65	49.65
Total Asset Turnover Rat	0.98	0.89	0.86	0.95	0.94	0.95	0.96	0.97	0.98	0.99
Debt/Equity Ratio	367.72%	308.55%	277.63%	231.82%	200.82%	149.14%	115.47%	94.26%	76.94%	62.77%
Debt/Total Assets Ratio	78.56%	75.49%	73.52%	69.86%	66.76%	59.86%	53.59%	48.52%	43.48%	38.56%
Time Interest Earned Ratio	11.16	11.78	15.84	16.07	16.42	6.27	6.95	8.03	9.73	12.46
Operating Profit Margin	21.3%	22.2%	22.9%	21.6%	23.3%	22.3%	22.3%	22.2%	22.2%	22.1%
Net Profit Margin	14.4%	15.7%	16.5%	15.8%	17.1%	14.0%	14.4%	14.8%	15.3%	15.8%
Return on Equity	66.10%	57.23%	53.59%	49.85%	48.11%	33.28%	29.77%	27.84%	26.43%	25.36%
Return on Assets	14.12%	14.00%	14.19%	15.02%	15.99%	13.36%	13.82%	14.33%	14.94%	15.58%

average number of days that a company takes to collect payment after a sale has been made. A decreasing trend in this ratio could indicate improved collection processes. Accounts Payable Days reflects how long a company takes to pay its own invoices. A stable or decreasing trend can indicate that the company is managing its payables efficiently. Total Asset Turnover Ratio measures a company's ability to use its assets to generate sales. A stable or increasing ratio is generally positive, indicating effective use of assets. Debt to Equity Ratio is a measure of a company's financial leverage. The decreasing trend suggests the company is reducing its reliance on debt relative to equity, which may reduce financial risk. Debt to Total Assets Ratio indicates what proportion of a company's assets are financed through debt. A decreasing trend here is also positive, suggesting improved financial stability. Time Interest Earned Ratio shows how easily a company can pay interest on its outstanding debt with its before-tax earnings. Higher values suggest more ease in paying interest, indicating good financial health. Return on Assets (ROA) indicates how profitable a company is relative to its total assets. An increasing ROA suggests the company is more efficiently generating profit with its assets.

Competitor analysis:

Hershey Company (HSY) has a market cap of \$38.173.1 million, and HSY's market cap is significantly higher than most of its peers, indicating that it is one of the largest players in the confectionery industry. Its P/FCF ratio is 24.78, indicating that investors are willing to pay \$24.78 for every \$1 of free cash flow HSY generates. This is a relatively high ratio, indicating that investors may expect future growth or believe that the company's free cash flow will be sustainable and likely to increase. Mondelez International Inc. Has a market capitalization of \$9,847,789 million and a similar price-to-book ratio of 27.82 times. Compared to Mondelez, HSY's valuation seems slightly conservative. This could mean that Mondelez is perceived to have stronger growth prospects or stronger free cash flow generation. In contrast, Tootsie Roll Industries(ticker symbol not visible) has a much smaller market cap of \$2,205.93 million and a

higher P/E of 39.90. This could indicate that investors are assigning a premium to Tootsie Roll's free cash flow, which could be due to its niche position, brand strength or other qualitative factors that could justify a higher valuation. Sucre Ltd (ticker symbol SUG) stands out with a very low P/E of 0.58 and a tiny market cap of \$38.99 million. This indicates that the market values its free cash flow at a much lower rate than its peers, possibly due to company-specific risks, a weaker market position, or less optimistic growth prospects. Rocky Mountain Chocolate Factory Inc (MCF) and Gunther Grant Inc (VGR) have P/FCF ratios of 0.00, indicating that they may not have significant free cash flow, or there may be data breaches or special circumstances affecting their valuations. All in all, HSY seems well-positioned with a decent market cap and price-to-free cash flow ratio that reflects healthy investor expectations, not excessive speculation. Compared to peers, HSY's valuation is more conservative than Tootsie Roll Industries but more aggressive than Sucre Ltd, suggesting a balanced view on its financials and growth prospects.



Company	Market Cap (M)	Price-to-Free-Cash-Fl...
The Hershey Co	\$ 38,173.31	24.78
Tootsie Roll Industrie...	\$ 2,205.93	39.90
Sucro Ltd	\$ 38.99	0.58
Rocky Mountain Cho...	\$ 25.89	0.00
Gunther Grant Inc	\$ 0.00	0.00
Mondelez Internation...	\$ 98,467.89	27.82

Buy Recommendation:

Based on detailed financial analysis of Hershey Company (HSY), the buy recommendation is supported by several strong indicators. HSY's recent performance has been in line with investors' expectations, showing strong revenue growth and a promising increase in expected earnings per share. The company's growth rate exceeded the industry average, demonstrating its resilience and potential for continued expansion. In addition, the healthy free cash flow is a testament to HSY's solid financial position, which demonstrates its ability to fund operations and sustainable growth. The company's strong market position is reflected in its high market cap and moderate price-to-free cash flow ratio compared to peers, which implies balanced market expectations with no overvaluation concerns. In addition, HSY's consistent dividend payments and shareholder returns highlight its commitment to shareholder value. In addition, HSY's market position is solid, reflecting its strong brand presence, stable financial performance, and history of shareholder returns. These factors, combined with a solid balance sheet and the potential for continued growth in the resilient confectionery industry, make HSY a strong candidate for a buy recommendation.

Reference:

Figure:

<https://www.gurufocus.com/term/pfcf/HSY/Price-to-Free-Cash-Flow/The%20Hershey%20Co>

<https://stockscan.io/stocks/HSY/forecast>

<https://finance.yahoo.com/quote/HSY/analysis>

https://www.google.com/finance/?rlz=1C5CHFA_enUS941US942&oq=hsy&gs_lcrp=EgZjaHJvbWUqBggCEEUYOzIMCAAQlxgnGIAEGIoFMg0IARAUgIMBGLLEDGIAEMgYIAhBFGDsyBggDEEUYOzIGCAQQlxgnMgYIBRBFGDwyBggGEEUYPDIGCACQRRg80gEIMjc0MWowajmoAgCwAgA&sourceid=chrome&ie=UTF-8&sa=X&ved=2ahUKEwiowKXhqc6EAxUBN2IAHXgoDvMQ6M8CegQIPBAI

https://www.google.com/finance/?rlz=1C5CHFA_enUS941US942&oq=hsy&gs_lcrp=EgZjaHJvbWUqBggCEEUYOzIMCAAQlxgnGIAEGIoFMg0IARAUgIMBGLLEDGIAEMgYIAhBFGDsyBggDEEUYOzIGCAQQlxgnMgYIBRBFGDwyBggGEEUYPDIGCACQRRg80gEIMjc0MWowajmoAgCwAgA&sourceid=chrome&ie=UTF-8&sa=X&ved=2ahUKEwiowKXhqc6EAxUBN2IAHXgoDvMQ6M8CegQIPBAI