Kraft Heinz Company

US Satellite*

Recommended since 04.12.2019 **01.02.2023**

Country	US	Market capitalization (bn)	USD 50.2	Perf. since reco. (%)	
Sector	Food & Beverage	Free float	90.4%	Kraft Heinz Company	30.6
Factset	KHC-US	Closing price	USD 40.53	Sector	25.2
ISIN	US5007541064	ESG Risk score*	35.3 High risk		

Profile

The Kraft Heinz Company is an American Food & Beverage company resulting from the merger of Kraft Foods and Heinz in 2015. It is the third-largest food and beverage company in North America and the fifth-largest food and beverage company in the world with a turnover of USD 25 billion. It has leading brands in the United States, eight of which generate over USD 1 billion in sales in the following categories: Ketchup, Cheese, Delicatessen, Snacks, Flavoured Drinks, Ready Meals and Desserts, Mayonnaise... Its competitors are: General Mills, Kellogg, Mondelez, PepsiCo, Nestlé...

Strengths/opportunities

- Back to basic qualities -> products / marketing / mix / channels.
- COVID's boost for its categories, which provides support for recovery.
- The pandemic lasts and supports domestic consumption.
- A new strategy under way to be accelerated.

Weaknesses/threats

- Slowdown in the US economy (consumption).
- Higher investments / under-utilization of savings.
- Clarity on strategy / capital allocation.

Investment case

- In 2015, the stock was boosted by the 3G/Berkshire Hathaway combination to integrate Heinz, but too much appetite (rejected Unilever takeover bid in 2017), profit warnings (2018) and $15bn in asset impairment have penalized it. A new CEO in 2019 and the stabilization of operations have shown that things are moving: cost-cutting and better resource allocation (marketing, innovation, mix/channel management).
- Covid was an opportunity for KHC, whose product portfolio benefited from the pandemic with volumes driven by a shift in distribution to retail. This momentum has continued into 2021, accelerated by the reopening of the restaurant channel.
- After a successful H1, KHC had raised its 2022 organic sales growth guidance from mid-single digit to high-single digit but cautiously maintained its adjusted EBITDA target at $5.8-6bn due to the expected economic slowdown in the US in H2. While cost inflation is a drag on gross margin, price increases, productivity gains, lower marketing and better sourcing, and the return of the US and international restaurant business are encouraging. After Q3 results, management is saying the same thing, confirming its 2022 organic sales growth target and raising its EBITDA target to $5.9-6 billion.
- KHC's new strategy is focused on relaunching old food brands (Oscar Mayer/Velveeta), divesting some cheese brands and focusing on growth categories. In the current environment, the sector (Food/Staples) has become attractive again and the release of a solid H1 2022 performance in a climate of uncertainty (rising rates/inflation/US slowdown) is adding to the interest in the stock. As consumers may trade down and favor KHC's products, its portfolio is ideally positioned.

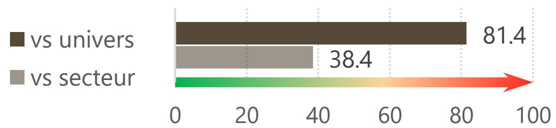
Valuation

The valuation is attractive compared to the US Food & Beverages sector and its peers in general and does not include a recovery scenario.

USD	12/2021	2022e	2023e
Sales revenue (mio)	26'043	26'334	26'608
Sales growth	*-0.5%*	*1.1%*	*1.0%*
EBIT adjusted (mio)	5'070	4'886	5'013
% of sales	*19.5%*	*18.6%*	*18.8%*
Net income (mio)	1'012	3'357	3'405
Net income growth	*184.3%*	*231.7%*	*1.4%*
FCF/Sales	17.1%	10.6%	11.7%
Net debt/Ebitda	3.8x	3.1x	2.8x
Dividend yield	3.9%	3.9%	4.0%
PE	43.1x	15.0x	14.7x
P/BV	1.0x	1.0x	1.0x

Factset estimates

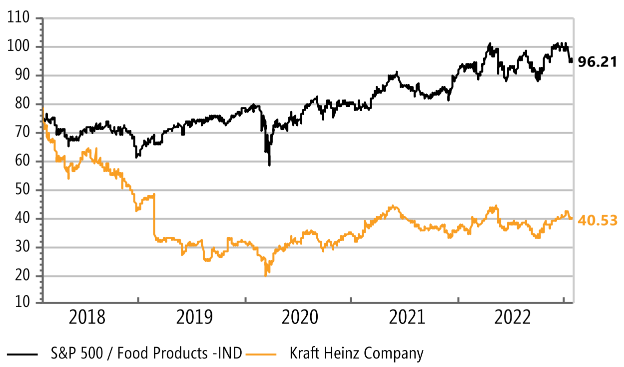
ESG risk vs. universe & sector (percentile)*



ESG - risks and key points

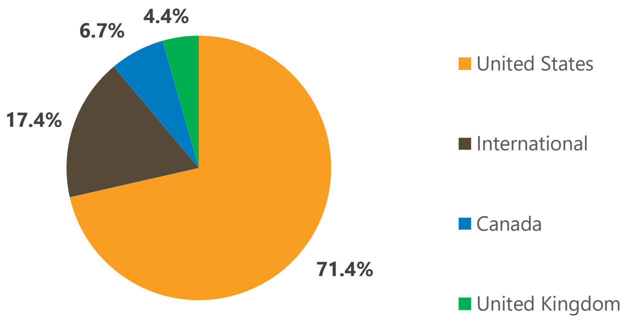
- KHC's rating is not good with a high risk of a material financial impact related to ESG factors.
- Risks related to product categories (meat, dairy products) on contamination, obesity, manufacturing quality.
- Despite its procurement, environment, product initiatives to reduce water consumption and CO2 emissions, its management of ESG issues is lagging behind its peers.

5-year performance vs sector



Source: FactSet

Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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