



Overall Rating	Undervalued by 18.2%	
Valuation Models (in order of importance)	Analyst Consensus: \$30.00 (USD)	
	Discounted Cash Flow: \$24.83 (USD)	
Valuation Methods	This company is:	
Cash Flow:	Undervalued on a Cash Flow Valuation	
Comparable Company:	Undervalued on a Comparable Valuation	
Asset:	Undervalued on an Asset Valuation	

Information

My name is Michael El-khoury, I am a Student at the University of New Brunswick, majoring in Finance and I am just starting an internship here at StockCalc for the summer. One of my tasks is to do reports on companies using StockCalc's useful tool and external resources.

This Stock is	Technically		
Fundamentally	Buy	Hold	Sell
Under Valued	Buy the Stock	Buy or Wait on Technical	Wait on Technical
Fairly Valued	Buy or Wait on Fundamental	Wait on Both Indicators for Direction	Sell or Wait on Technical
Over Valued	Wait on Fundamental	Sell or Wait on Fundamental	Sell the Stock

Company Overview (KR:NYS USD)	
Price	23.93
Range	23.57 - 24.05
52 week	22.78 - 32.56
Open	23.73
Vol / Avg.	6.67M/7.95M
Mkt cap	19.3B
P/E	6.36
Div/yield	0.53/0.02
EPS	3.76
Shares	806.68M
Beta	0.71

Drivers of Consumer Staples Sector

Unlike the consumer discretionary sector, the consumer staples sector is known more as a safer investment during market volatility or an economic downturn. Drivers that impact the consumer staples sector are; increased competition, trade disputes and cost-cutting. The current economic condition does not play a big effect on the consumer staples side, as it depends on consumers' needs and not wants. When the economy weakens we can see consumers to start saving money instead spending it and that's why it's not the same result as the consumer discretionary sector would see. Since Kroger is a one of the largest supermarkets in the United States, they can feel the pressure from the ecommerce giants such as Amazon.

Consumer Staple Forecast

The consumer staples is unlike the others sectors, where it is steady during periods volatility or economic downturns. There is a constant change in the consumer staples section, making companies to transform and adapt to big players like Amazon and Walmart who makes it easier for consumers to order online and get the product delivered to them. Kroger is one of the largest supermarkets in the United states and to adjust to the renovating retail industry, they launched Restock Kroger, a platform that enables them to deliver anything, anytime, anywhere, directly to their customers. During their first quarter earnings report they declared that their online sales grew by 42%. This trend is to continue as technology plays a bigger part of the consumers experience. A forecast from Kroger in the next 6-12 months is a more focus on Restock Kroger which will give increase in free cash flow and adjusted EBITDA.

Company Description

Kroger is the leading American grocer, with 2,764 supermarkets operating under several banners throughout the country as of the end of fiscal 2018. Around 82% of stores have pharmacies, while over half also sell fuel. The company also operated 274 fine jewelry stores at the end of fiscal 2017. Kroger features a leading private-label offering and manufactures around a third of its own-brand units (and 43% of its grocery own-label assortment) itself, in 37 food production plants nationwide. Kroger is a top-two grocer in 46 of the 52 major markets in which it operates along with 54 of its 73 secondary markets (as of the end of fiscal 2017, according to IRI data). Virtually all of Kroger's sales come from the United States.

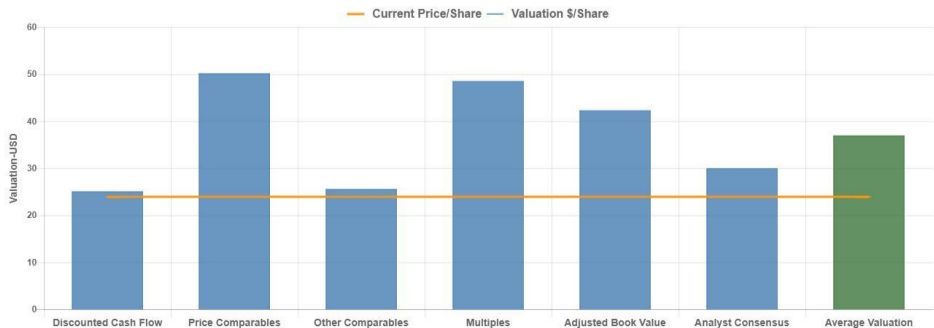
Company Latest News

On Thursday June 20th, 2019, Kroger announced its first quarter earnings. Results showing EPS of \$0.95 and adjusted EPS of \$.072, operating profit of \$901 million. They mentioned more focus on their online delivery platform, Restock Kroger. Sales were \$37.3 billion compared to the same period last year with \$37.7 billion. Gross margins also fell by 40 basis points due to lower margins in the pharmacy department.

Recommendation

My recommendation for Kroger Co. is a **HOLD**. I looked at the provided information from StockCalc, KR is fundamentally undervalued noted in the valuation detail section on a basis of analyst data and discounted cash flow, deriving a \$27.93 weighted valuation. Taking a deeper look into the consumer stables sector and forecast for Kroger Co. itself, I have determine my Hold decision due to its first quarter earnings results and overall decrease in sales on the grocer sector, but there has been growth in online sales for Kroger with Restock Kroger, that could help boost up KR to its intrinsic value in the future. To move KR from a HOLD to a BUY position, it will need to focus more on the e-commerce side of the consumer staples sector to compete with Amazon. Also looking at StockCalc forecasted income statement, it has a avg growth rate of 1.69% and but with a growth of 42% in online sales, will see an increase on the top line in the next 3 years, also with COGS and SG&A seeing a decrease because the lower overhead costs involved with online sales and this will also impact the EBITDA to increase, making KR more profitable in the long run.

Valuation Details



We have up to 6 valuation points for each company. Details are at the bottom of the report

Discounted Cash Flow and Sensitivity Analysis for KR:NYS

Using a discounted cash flow model we generated an intrinsic value of \$25.09 (USD) for KR:NYS

Sensitivity Analysis

(showing how changes in the input variables impact the DCF calculation)

KR:NYS	Current Values	Valuation If Dropped *		Valuation If Raised *	
Calculated Value:	\$25.09	1%	5%	1%	5%
WACC (or Ke)	6.54	\$35.91		\$17.88	
Terminal Growth Rate	1.50	\$18.40		\$35.09	
Tax Rate	0.23	\$29.31		\$20.87	
Cash Flow	5,986,673,000	\$19.66		\$30.51	
Capital Expenditures	-3,131,000,000	\$22.45		\$27.73	
Long Term Debt	12,420,000,000	\$25.86		\$24.32	

* Changes are absolute: ex WACC from 8% to 7%

Comparables Model

Using similar companies and price based ratios we generated a valuation of \$50.17 (USD) for KR:NYS. We also generated a valuation of \$25.58 (USD) using other metrics and comparables. The comparable companies were and Casey's General Stores (CASY:NAS).

Company KR:NYS	End Date Value	Price Based on Comps	Adjustment Factor (%)
Earnings/Share	\$3.76 (USD)	\$93.75 (USD)	-17.8
Book Value/Share	\$9.78 (USD)	\$34.47 (USD)	24.6
Sales/Share	\$148.12 (USD)	\$79.53 (USD)	-54.4
Cash Flow/Share	\$5.09 (USD)	\$31.86 (USD)	-32.4
EBITDA/Share	\$8.63 (USD)	\$98.36 (USD)	-24.2

KR:NYS	Ratios Used	Average Values	CASY:NAS
6.36	PE Ratio	24.93	24.93
2.45	PB Ratio	3.53	3.53
0.16	PS Ratio	0.54	0.54
4.70	PCF Ratio	9.92	9.92
4.83	EV to EBITDA	11.39	11.39

Multiples

Using a multiples approach we generated a valuation of \$48.55 (USD) for KR:NYS

Company KR:NYS	End Date Value	Price Based on Comps	Adjustment Factor
Earnings/Share	\$3.76 (USD)	\$59.32 (USD)	0
Book Value/Share	\$9.78 (USD)	\$42.98 (USD)	0
Sales/Share	\$148.12 (USD)	\$38.47 (USD)	0
Cash Flow/Share	\$5.09 (USD)	\$36.02 (USD)	0
EBITDA/Share	\$8.63 (USD)	\$65.94 (USD)	0

Ratios	Ratio Average
PE Ratio	15.78
PB Ratio	4.40
PS Ratio	0.26
PCF Ratio	7.08
EV to EBITDA	7.64

Adjusted Book Value versus Historical Price to Book

The average the Price to Book ratio for KR:NYS for the last 10 years was 4.28. We ran the Adjusted Book Value for KR:NYS and generated a book value of \$9.88 (USD). By multiplying these we get an adjusted valuation of \$42.32 (USD)

Analyst Data

In the Stockcalc database there are 6 analysts that provide a valuation for KR:NYS. The 6 analysts have a consensus valuation for KR:NYS for 2020 of \$30.00 (USD).

Analyst Recommendation					
Buy	Hold	Sell	Rating (of 5)	Guidance	As Of
4	3	0	4.1250	Outperform	2019-6-6

Current Price: 23.93 USD

Analyst Consensus			
USD Millions	2020	2021	2022
Mean EPS	2.21	2.37	2.50
# EPS Analysts	6	6	1
Mean Revenue	122,848.40	126,473.20	133,747.40
# Revenue Analysts	5	5	1
Mean Target Price	30.00		
Mean Cash Flow	5.61	5.97	5.94
Mean EBITDA	5,389.10	5,562.40	5,898.20
Mean Net Income	1,768.50	1,856.40	1,982.00
Mean Debt Outstanding	13,145.10	12,625.80	12,800.90
Mean Tax Rate	22.00	22.50	
Mean Growth Rate	5.99		
Mean Capital Expenditure	3,261.40	3,310.80	3,703.90

Explanation of Valuation Models

We have up to 6 valuation points for each company in the database.

The Discounted Cash Flow (DCF) valuation is a cash flow model where cash flow projections are discounted back to the present to calculate value per share. DCF is a common valuation technique especially for companies undergoing irregular cash flows such as resource companies (mining, forestry, oil and gas) going through price cycles or smaller companies about to generate cash flow (junior exploration companies, junior pharma, technology firms...).

The Price Comparables valuation is the result of valuing the company we are looking at on the basis of ratios from selected comparable companies: Price to Earnings, Price to Book, Price to Sales, Price to Cash Flow, Enterprise Value (EV) to EBITDA. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

We have included the Other Comparables as a way to value companies that cannot be valued using Earnings based ratios. This technique is very useful for companies still experiencing negative cash flows such as mining exploration firms. We use Cash/Share, Book Value/Share, MarketCap, 1 Year Return, NetPPE as the ratios here. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

Multiples are similar to Price comparables where we look at current or historic ratios for the company in question to assess what it should be worth today based on those historic ratios. We use the same 5 ratios as in the price comparables and value the company with its historic averages.

With Adjusted Book Value (ABV) we calculate the book value per share for the company based on its balance sheet and multiply that book value per share by its historical price to book ratio to calculate a value per share.

If we have Analyst coverage for the company we use the consensus target price here.

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