

## RealMoney Investment & Trading Ideas



### Tyson Foods Chickens Out on Outlook

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As Cody Willard and I have said in the past: It's chickeneconomics. The push for alternative sources are disrupting the price of livestock feed and hence is going to impact the food chain. While food demand seems to be rising with population growth, the volatility in beef and other meat products is going to continue to rise and frustrate food service and restaurants companies in the next year. There is no value here, and I would continue to avoid **Tyson Foods** (TSN) and its peers.

Tyson reported fourth-quarter 2007 EPS of 9 cents, turning around from a loss in the year-ago period. Fourth-quarter net sales were \$6.9 billion. Operating income improved by \$122 million year over year, to \$102 million. Included in fourth quarter 2007 results was a \$17 million non-cash tax expense item. For fiscal 2007, Tyson earned 75 cents vs. 58 cents in 2006.

At the end of the year, Tyson had \$2.78 billion in debt. This reflects an approximate \$0.5 billion year-over-year reduction in debt and leaves the company with the lowest amount of debt since prior to the 2001 IBP acquisition.

For fiscal 2008, management expects EPS of 30 cents to 70 cents; the range of 40 cents was determined in consideration of the expected volatility in beef and grain process in 2008. The first quarter of 2008 will be the most challenging for the company. Revenues for the full year is expected to be approximately \$28 billion. Analysts' consensus calls for Tyson to earn \$1.06 on revenue of \$27.33 billion in 2008.

Chicken sales increased on higher prices despite lower volumes; volumes were down due to the sale of two plants and the closing of one due to a fire, which will not be rebuilt. The company successfully launched two new chicken products during the quarter. Management anticipates increased grain costs of \$300 million in 2008. Industrywide growth will be 3% to 4% in 2008.

Beef experienced operating income improvements for the fourth quarter and the full year on the back of improved execution, lower operating costs, better yields and pricing power, and improved margin spreads and capacity utilizations. Margins in the industry are compressing due to too much cattle supply. Management sees a difficult and volatile environment going forward, however, historically, these conditions have had limited duration.

Pork sales were up due to higher volume with slightly decreased prices. The business benefited from higher spreads and higher capacity utilization. Pork supply is expected to increase 1% to 2% and will perform better in 2008 relative to 2007.

#### Tyson Foods Preview: What Will Hatch?

**Tyson Foods** (TSN) is scheduled to release fourth-quarter 2007 results and conduct its quarterly conference call before the market opens on Monday. The company is expected to earn 9 cents per share on revenue of \$6.73 billion. In the year-ago quarter, Tyson lost 7 cents on sales of \$6.47 billion.

Tyson Foods produces and distributes meat products (beef, pork, chicken) as well as prepared foods. There have been some recent problems with beef, the largest of which was when the **Topps Meat Company** was forced to recall infected beef, which soon thereafter resulted in the company closing down for good. Beef prices, which were on the rise for nearly two years, seem to have finally topped out. Chicken and grain prices continue to rise as well. The restaurant industry has

had a slow year, while the hotel business continues be strong. I would call that net impact a push to the food services industry.

The company's stock has performed very poorly this year. After spiking to nearly \$24 this summer, the stock is back to where it started the year at around \$15. I am not thrilled with the company's balance sheet, which has very little cash and a great amount of debt. It also depends on receivable collections to an extent that is too close for comfort.

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