



Date: 11/1/2020
 Company Ticker: SPTN
 Sector: Consumer Staples
 Industry: Retail/Wholesale Food

Forward P/E: 8.45
 Sector Forward P/E: 20.8
 Market Price: 19.72
 Target Price: 26.98

Recommendation: Hold

Company Summary

SpartanNash is a grocery store distributor and retailer. They were formed in 2013 after Spartan Stores merged with Nash Finch Company. The company's core business includes distributing food to military commissaries and exchanges, as well as independent and corporate-owned retail stores located in 47 states. They have experienced 17 consecutive quarters of growth year over year. They have a P/E ratio of 13.62 as of November 1, 2020.

Industry Outlook

The Retail/Wholesale food industry is performing very well during the coronavirus pandemic. This is likely because consumers are moving away from restaurants and shopping more at grocery stores as they socially distance. The pandemic seems to be surging with cases going up nationwide, so consumers are likely to favor retailers over restaurants at least through 2020. As the country works to get back to normal this trend will likely reverse.

Earnings Forecast

Income Statement	2017	2018	2019	Estimated 2020	Estimated 2021	Estimated 2022	Estimated 2023	Estimated 2024
<i>In thousands</i>								
Net sales	\$ 8,128,082	8,064,552	8,536,065	9,430,319	8,983,192	9,252,688	9,530,268	9,816,176
Cost of sales	6,983,173	6,954,146	7,292,235	8,018,783	7,638,582	7,867,740	8,103,772	8,346,885
Gross profit	1,144,909	1,110,406	1,243,830	1,411,536	1,344,609	1,384,948	1,426,496	1,469,291
Selling, general and administrative	1,014,665	997,411	1,172,401	1,293,155	1,231,842	1,268,797	1,306,861	1,346,067
Merger/acquisition and integration	1,140	-	-	1,786	500	500	500	500
Restructuring charges and asset impairment	15,456	42,483	4,683	18,417	10,000	10,000	10,000	10,000
Total operating expenses	1,031,261	1,039,894	1,177,084	1,313,358	1,242,342	1,279,297	1,317,361	1,356,567
Operating earnings	113,648	70,512	66,746	98,178	102,268	105,651	109,135	112,724
Interest expense	25,343	30,483	34,548	18,588	14,600	14,600	14,600	14,600
Loss on extinguishment of debt	(2,187)	-	(1,611)	-	-	-	-	-
Postretirement benefit expense (income)	428	(669)	20,841	(398)	600	600	600	600
Impairment of capital assets	222,706	-	17,925	-	-	-	-	-
Other, net	(998)	-	(8,532)	(797)	(780)	(780)	(780)	(780)
Total other expenses, net	245,292	29,814	63,171	17,393	14,420	14,420	14,420	14,420
Earnings (loss) before income taxes and discontinued operation	(131,644)	40,698	3,575	80,785	87,848	91,231	94,715	98,304
Income tax expense (benefit)	(78,799)	6,907	(2,342)	4,269	17,570	18,246	18,943	19,661
Earnings (loss) from continuing operations	(52,845)	33,791	5,917	76,516	70,278	72,985	75,772	78,644
Loss from discontinued operations, net of taxes	-	-	175	-	-	-	-	-
Net earnings (loss)	\$ (52,845)	33,791	5,742	76,516	70,278	72,985	75,772	78,644

SpartanNash has experienced a huge increase in sales in 2020. We have projected Q3 and Q4 sales based on the increase in Q1 and Q2 year over year to get to our 2020 sales projection. From there, we expect a decrease in sales in 2021 to pre-pandemic levels as the country starts to return to normal. Then sales grow at a 3% rate from 2022-2024. Cost of sales and SG&A stay relatively consistent at around 85% and 13% of sales, respectively. Interest expense is expected to decrease as SpartanNash continues to pay off debt. Other expenses were harder to predict, so were projected based on averages of the previous years.

Valuation

FCFE	2017	2018	2019	2020	2021	2022	2023	2024
NI	(52,845)	33,572	5,742	76,516	70,278	72,985	75,772	78,644
Depreciation	84,390	84,190	90,600	86,393	87,061	88,018	87,158	87,412
CapEx	70,906	71,495	74,815	78,556	82,484	86,608	90,938	95,485
NWC	509,705	524,645	431,548	560,540	533,963	549,982	566,481	583,476
Debt	998,343	698,060	749,951	608,651	608,651	597,186	615,102	633,555
FCFE	449,277	(268,956)	166,515	(185,939)	101,433	46,912	73,408	72,029
			PV FCFE	(182,265.96)	86,469.16	36,923.42	53,346.43	48,329.62
LT Growth Rate	3.0%							
Discount Rate	8.31%							
Terminal Value	937,875							
SUM of cash flow	980,677,550							
Shares outstanding	36,351,000							
Target Price	26.98							

We expect long-term growth to settle at the long-term growth rate of the economy, or 3.0%. The discount rate was solved by using the sector wide forward P/E ratio of 20.8 and the long-term growth rate of 3.5%. Depreciation was assumed to stay rather consistent as an average of the previous three years. CAPEX is expected to increase 5% year over year as SpartanNash continues to acquire smaller grocery chains. Net working capital has consistently been 5-7% of sales and we expect that to continue. The firm paid down much of its debt in 2020. Debt is expected to increase in subsequent years to fund capital expenditures.

Sensitivity Analysis

Discount Rate: The following tables show the model with the discount rate +/- 1.5%

FCFE	2017	2018	2019	2020	2021	2022	2023	2024
NI	(52,845)	33,572	5,742	76,516	70,278	72,985	75,772	78,644
Depreciation	84,390	84,190	90,600	86,393	87,061	88,018	87,158	87,412
CapEx	70,906	71,495	74,815	78,556	82,484	86,608	90,938	95,485
NWC	509,705	524,645	431,548	560,540	533,963	549,982	566,481	583,476
Debt	998,343	698,060	749,951	608,651	608,651	597,186	615,102	633,555
FCFE	449,277	(268,956)	166,515	(185,939)	101,433	46,912	73,408	72,029
			PV FCFE	(181,640.29)	84,122.92	35,430.85	50,490.71	45,117.61
LT Growth Rate	3.0%							
Discount Rate	9.81%							
Terminal Value	682,627							
SUM of cash flow	716,148,705							
Shares outstanding	36,351,000							
Target Price	19.70							

FCFE	2017	2018	2019	2020	2021	2022	2023	2024
NI	(52,845)	33,572	5,742	76,516	70,278	72,985	75,772	78,644
Depreciation	84,390	84,190	90,600	86,393	87,061	88,018	87,158	87,412
CapEx	70,906	71,495	74,815	78,556	82,484	86,608	90,938	95,485
NWC	509,705	524,645	431,548	560,540	533,963	549,982	566,481	583,476
Debt	998,343	698,060	749,951	608,651	608,651	597,186	615,102	633,555
FCFE	449,277	(268,956)	166,515	(185,939)	101,433	46,912	73,408	72,029
			PV FCFE	(182,902.55)	88,914.95	38,501.02	56,406.92	51,819.98
LT Growth Rate	3.0%							
Discount Rate	6.81%							
Terminal Value	1,401,757							
SUM of cash flows	1,454,497,081							
Shares outstanding	36,351,000							
Target Price	40.01							

The discount rate is the greatest assumption in this model. As the above tables illustrate, however, there is still value in holding SpartanNash stock even if our discount rate varies by 1.5%.

Sales growth: The following shows the model with an estimated increase in sales growth from 2022-2024 from 3% to 5%

FCFE	2017	2018	2019	2020	2021	2022	2023	2024	
NI	(52,845)	33,572	5,742	76,516	70,278	74,789	79,525	84,498	
Depreciation	84,390	84,190	90,600	86,393	87,061	88,018	87,158	87,412	
CapEx	70,906	71,495	74,815	78,556	82,484	86,608	90,938	95,485	
NWC	509,705	524,645	431,548	560,540	533,963	560,661	588,694	618,129	
Debt	998,343	698,060	749,951	608,651	608,651	608,782	639,221	671,182	
FCFE	449,277	(268,956)	166,515	(185,939)	101,433	49,632	78,151	78,952	
				PV FCFE	(182,265.96)	86,469.16	39,064.99	56,793.10	52,974.39
LT Growth Rate	3.0%								
Discount Rate	8.31%								
Terminal Value	1,028,010								
SUM of cash flows	1,081,046,006								
Shares outstanding	36,351,000								
Target Price	29.74								

Sales growth: The following shows the model with an estimated decrease in sales growth from 2022-2024 from 3% to 1%

FCFE	2017	2018	2019	2020	2021	2022	2023	2024	
NI	(52,845)	33,572	5,742	76,516	70,278	71,180	72,092	73,012	
Depreciation	84,390	84,190	90,600	86,393	87,061	88,018	87,158	87,412	
CapEx	70,906	71,495	74,815	78,556	82,484	86,608	90,938	95,485	
NWC	509,705	524,645	431,548	560,540	533,963	539,303	544,696	550,143	
Debt	998,343	698,060	749,951	608,651	608,651	585,590	591,446	597,361	
FCFE	449,277	(268,956)	166,515	(185,939)	101,433	44,191	68,774	65,407	
				PV FCFE	(182,265.96)	86,469.16	34,781.86	49,978.84	43,885.90
LT Growth Rate	3.0%								
Discount Rate	8.31%								
Terminal Value	851,641								
SUM of cash flows	884,490,719								
Shares outstanding	36,351,000								
Target Price	24.33								

The sales growth rate is also a large assumption present in this model. The above tables illustrate, however, that there is value in holding SpartanNash stock even if the sales growth rate varies +/- 2%.

Conclusion

We recommend holding our stock in SpartanNash. Our model shows the company is undervalued by more than 40%. The sensitivity analysis supports holding the stock even with variances in assumed sales growth and discount rates. In addition, CNN Business reports 7 analysts offering 12-month price forecasts for SpartanNash Co have a median target of 23.00, with a high estimate of 29.00 and a low estimate of 20.00.