

VALUATION: KROGER

Team: Team7
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Investment Decision: Did Not Invest

INTRODUCTION:

We looked for a company that has stability, strong fundamentals, and consistent performance in the consumer staples sector and we chose Kroger because it is a leading grocery retailer. Kroger operates in an industry with steady demand, ensuring resilience even during economic downturns. The company has a low beta, making it less volatile compared to the broader market, and a relatively low P/E ratio, indicating it is attractively valued. Kroger also boasts strong revenue growth, efficient operations, and a solid dividend history, making it an ideal choice for an investment. Most importantly even at low beat, it gave us higher returns than the S&P index in the last 5 years.

COMPANY OVERVIEW:

Ticker:	KR	Exchange:	NASDAQ
Current Stock Price:	\$57.37	Date Reported:	10/25/2024
Target Stock Price:	\$63.00	Target Date:	10/28/2024

Kroger is the second-largest chain after Walmart and is considered one of the strongest brands in the industry. It operates in a sector with relatively low cyclicalities, meaning its sales are less sensitive to economic downturns compared to other sectors. Kroger has agreed to purchase Albertsons at a \$24.6 billion valuation and is currently awaiting approval. The primary reason for selecting Kroger equity was based on a screening process. We established a set of criteria, including a beta of less than or equal to 0.7, a low payout ratio, a market cap of \$10 billion or higher, and a P/E ratio of less than 18. Kroger was then selected based on its business cyclicalities, historical performance, and upside potential.

HISTORICAL PERFORMANCE:

Despite its low beta of 0.42, Kroger performed strongly, delivering returns comparable to the S&P 500. In 2022, KR US Equity demonstrated resilience by outperforming the index, with a return of 76.37% compared to the S&P 500's 63.98%. However, it has generally trailed the index, with a year-to-date (YTD) return of 136.55% versus the S&P 500's 154.92%. Overall, KR US Equity provides consistent positive returns, offering stability with lower beta, although it typically underperforms the S&P 500 during high-growth periods.

VALUATION SUMMARY:

Kroger (KR) offers stable investment with strong fundamentals, low volatility, and consistent performance in the grocery retail sector. Its low beta and attractive P/E ratio make it competitively priced, though it tends to underperform during high-growth periods. The pending Albertsons acquisition presents regulatory risks. Despite these challenges, Kroger's market position and operational efficiency support its stability. Our key assumptions are 1) Steady demand within the grocery retail sector. 2) Revenue growth driven by the Albertsons acquisition. 3) Attractive valuation with a low P/E ratio.