

INVESTOR'S EDGE

# Boring, yes, but ag company Archer Daniels Midland is growing



**Jim Burns, CFA** *Contributing columnist*

*"The farmer has to be an optimist or he wouldn't still be a farmer." – Will Rogers*

Most readers of this column, whether through mutual funds or individual stocks, have some kind of exposure to the winning technology companies of the last decade. However, if you haven't noticed, many of these so called "FAANG" stocks — Facebook, Apple, Amazon, etc. — are being sold off over the last few months.

Instead, money is beginning to flow towards more "value" sectors of the market; basic, boring industries such as energy, industrials, and materials. After lagging for many years, these sectors have recently roared to life on concerns of rising interest rates and inflationary pressures.

You see, sometimes, boring is better.

Well-known agriculture company Archer Daniels Midland may seem like a passé investment at first blush, but I

believe it offers a unique growth story within a boring industry. More importantly, I am confident readers of this column will make solid returns on this company over the next five years — with below average risk.

Let's take a look at the story.

Archer Daniels Midland (ticker symbol: ADM) is one of the world's largest producers of food and beverage ingredients and vital to the world's food supply and nutrition chain. ADM takes various agriculture inputs such as corn, soybeans, oilseeds, and wheat, and converts them into products for food, drinks, animal feed, and energy uses.

The company takes in more than \$65 billion revenue annually and operates primarily in three major segments: Agriculture Services, Carbohydrate Solutions, and Nutrition.

Because of ultra-low interest rates and staggering fiscal stimulus policies, infla-

tion pressures are clearly mounting. I believe local readers should be exposed to companies that can benefit from this trend. After all, if inflation rises, so, unfortunately, will your food bill.

On April 27, ADM reported earnings that significantly beat expectations on both the top and bottom line, including a 26% year-over-year increase in profit growth. As the global economy returns to some normalcy, demand for agricultural commodities such as corn, wheat, and others is expected to rise significantly.

CEO Juan Luciano, commented on the favorable environment ADM is entering and said the company expects "significant /year-over-year growth in earnings across all three of our businesses in 2021 and continued sustainable growth in the years to come"

As I have mentioned in previous columns, environmental, social, and governance (ESG) investing is becoming

increasingly relevant to high net worth and institutional investors. Whether you agree with the principle or not, large investor money will flow to ESG friendly companies.

Well, Archer Daniels Midland has a new growth engine that ESG-oriented investors will find very appealing.

In 2020, ADM announced plans to build the world's largest insect protein plant here in the United States. Insects can be farmed for commodities such as silk, honey, and most importantly, animal feed — all at a significantly lower environmental cost. "Insect farming" is a rapidly growing and ESG friendly industry that is expected to reach \$600 billion in sales by 2023.

And ADM is by far and away the leader here.

Also worthy of note is that ADM currently has almost a million acres enrolled

in sustainable farming practices and has set ambitious environmental goals to reach from greenhouse gas emission to deforestation.

ADM pays an attractive 2.23% dividend yield which compares very favorably to the current 10-year Treasury Bond yielding 1.6%. Furthermore, the company has raised its payout for 47 consecutive years.

Over the last five years, ADM has raised its dividend at 5.2% per year. Assuming that rate over the next five years, the future yield on your original investment will be over 5%! And with interest rates sitting near historic lows, it seems obvious to me that ADM is a much better income play for long-term investors.

ADM has carved itself as the leading company in an industry essential to everyday life.

The ADM slogan is "Supermarket to the World." That sounds like a company I want to shop at.

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