BARCLAYS

High Grade Food & Beverage

Getting Paid for the Leverage Hangover; Raise to Market Weight

We raise the food & beverage sector to Market Weight from Underweight and think that investors should start selectively to add exposure where downside risk is priced in and spreads offer upside versus our fair value target. In this vein, we rate Campbell, Kraft Heinz, and Tyson Overweight.

Rating Changes

- **We initiate coverage of Campbell with an Overweight rating.** On a relative basis, levels are wide of our fair value target, and as one of the widest-trading names in the sector, it offers a way to add exposure to food & beverage with attractive carry. While we recognize the fundamental and secular challenges facing the company, we think that there are concrete things that it can do to shore up its rating, and as such, we see limited likelihood that the credit will fall to high yield (more limited than current spreads arguably suggest). Furthermore, we expect the next catalyst for the company – its earnings results and strategic review announcement on August 30 – to be positive.

- **Raise Tyson to Overweight.** We think that the relative differential with Sysco can be cut in half, putting the company at levels more aligned with what we view as a high-BBB credit story. This is supported by the company's strong balance sheet, lower leverage target, and strong track record in executing on acquisitions.

- **Lower Mondelez to Underweight.** We think that investors should take profits at current levels, as we believe the credit should trade flat to Kellogg, suggesting widening potential of 15bp. Furthermore, looking at performance relative to BBB industrials and the rest of the BBB food & beverage sector, Mondelez is the only credit to have tightened year-to-date, suggesting an opportune time to consider other names.

- **Raise General Mills to Market Weight,** as the credit's current valuation is approaching our fair value target on an absolute basis, although we would be selective about adding exposure. In our view, current levels are starting to more appropriately reflect the company's strong track record of acquisition integration while balancing ongoing challenges in the sector.

- **Raise Constellation to Market Weight.** In our view, the company's valuation premium is justified given its steady financial policy and limited event risk, and we view spreads as fair versus our +15-20bp target relative to Anheuser-Busch InBev.

U.S. HG Food and Beverage
Market Weight
from Underweight

CAMPBELL SOUP CO
Overweight
from n/a

CONSTELLATION BRANDS INC
Market Weight
from Underweight

GENERAL MILLS INC
Market Weight
from Underweight

KELLOGG CO
Market Weight
Unchanged

KRAFT HEINZ FOODS CO
Overweight
Unchanged

MONDELEZ INTERNATIONAL INC
Underweight
from Market Weight

TYSON FOODS INC
Overweight
from Market Weight

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Summary of Ratings

Bloomberg Barclays U.S. Credit Index		
	Old	**New**
U.S. HG Food and Beverage	Underweight	**Market Weight**
CAMPBELL SOUP CO	n/a	**Overweight**
CONSTELLATION BRANDS INC	Underweight	**Market Weight**
GENERAL MILLS INC	Underweight	**Market Weight**
KELLOGG CO	Market Weight	Market Weight
KRAFT HEINZ FOODS CO	Overweight	Overweight
MONDELEZ INTERNATIONAL INC	Market Weight	**Underweight**
TYSON FOODS INC	Market Weight	**Overweight**

Source: Barclays Research

Time to Step in

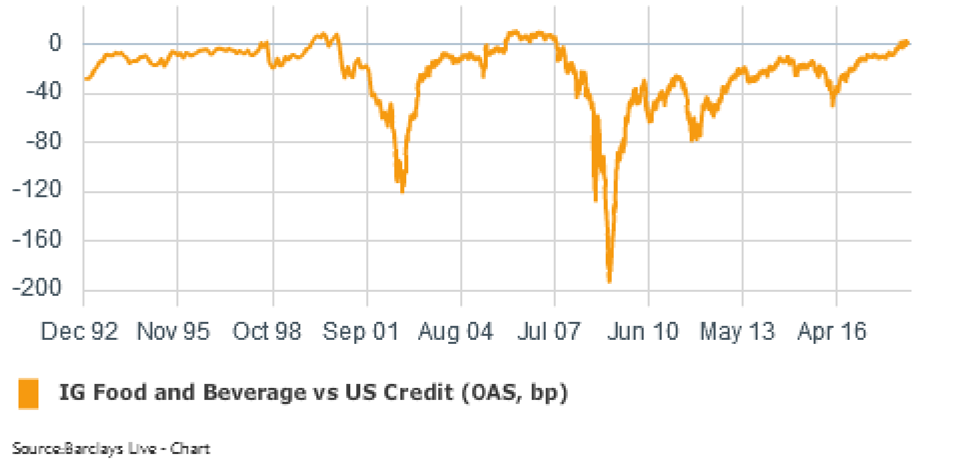
We raise our rating on the food & beverage sector to Market Weight from Underweight, as it is currently trading 2bp wide of US credit, its widest level in more than a decade. While the historic wide was an 11bp discount (in late April 2006), we think that present levels reflect some of the secular challenges faced by the sector – ie, changing consumer preferences, retailer pressure, competitive dynamics, and higher leverage. While outperformance is likely to require more consistent positive trends, coupled with successful deleveraging, we think that levels have reached the point where investors should consider adding exposure selectively. Furthermore, we would argue that while the percentage of BBB names in the food & beverage sector has increased (from 38.5% at year-end to 44.6% currently), it is still lower than the Credit Index (at 48.0%), suggesting that the sector remains somewhat safer from a ratings perspective than the market (Figure 2). We recommend buying Tyson, Kraft Heinz and Campbell, with the latter offering the most carry given its currently wide levels.

The past few months have shown increasing evidence of "M&A gone wrong," which is notable at a time when companies are increasing leverage for inorganic growth. We are coming off a heavy issuance period in the food & beverage sector, in particular, with companies having issued $45.65bn (or 18% of total industrial gross issuance year-to-date). Leverage for many of our companies is now at 4-6x, and more recently, results have been weakened by the steep rise in freight and transport costs (compounded by retailer pressure for on-time and full deliveries). First-quarter earnings have started to show evidence of stabilization in certain areas (eg, Kellogg in cereal), with both Mondelez and Kraft posting better-than-expected sales performance. We think that this is evidence that the sector should settle at current levels. The most recent leg of widening has been driven by a combination of weaker earnings at Campbell (and subsequently Smucker), **but levels have reached the point where we think investors are being paid to move into the sector**.

To be fair, we think that **deleveraging will remain a focus in the sector**. Outside of food & beverage, we contend that Newell Brands is a relevant example, with the company having to engage in a series of asset sales, driven in part by the inability to deliver the pace of EBITDA growth originally assumed in its deleveraging plan. Furthermore, we think that Moody's placement of Campbell's rating on review for downgrade following F3Q18 results shows that recent leveraging transactions have limited cushion if things do not go exactly as planned. In light of this, asset sales could be an important route to support ratings – General Mills is already planning to divest 5% of its portfolio, and we expect Campbell to consider asset sales as well.

FIGURE 1

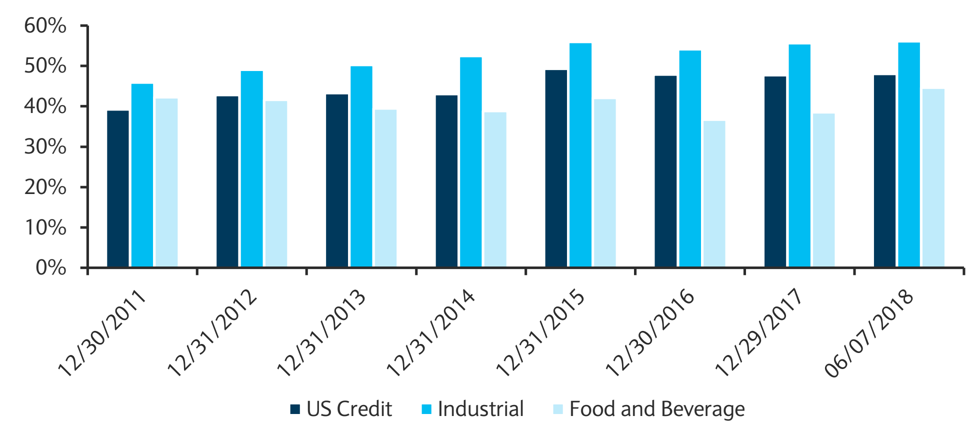
Food & Beverage Sector Is at Almost an 11-year Wide



Source: Barclays Live-Chart

FIGURE 2

BBBs as a Percent of Outstanding



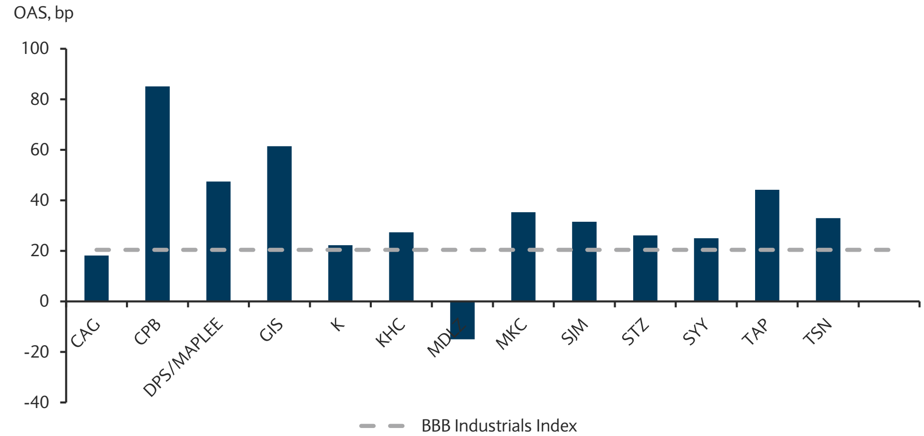
Source: Bloomberg Barclays Indices

Where to Add Exposure

In *For BBBs, This Sell-off Looks Like a Rally,* Barclays' strategy team looked at the performance of BBBs versus As and noted that "the BBB/A ratio has dropped from 1.67x at the beginning of the year to 1.51x currently, implying beta-adjusted BBB outperformance." it also noted that while there is concern that an increased amount of BBB notional debt could affect performance, especially for highly leveraged credits, in the event of a weaker economic backdrop, this is not yet evident in performance. We would argue that **one exception is BBB food companies, particularly the three that have incurred leverage for M&A (Campbell, Keurig Dr Pepper, and General Mills), which have underperformed, as highlighted below.** Campbell has been the most significant underperformer in this regard, supporting what we view to be an entry point to the credit, particularly as we compare our relative value expectations with where credits are presently trading (Figure 4).

FIGURE 3

BBB Food & Beverage Performance versus BBB Industrials (Year-to-Date Change in OAS)



Source: Bloomberg Barclays Indices

Fair Value Framework for Food

FIGURE 4

Relative Value Framework

Food			
Company	**Ticker**	**10y spread target (bp)**	**Increment (bp)**
Hershey	HSY	100	
Sysco	SYY	120	20
Tyson	TSN	130	10
Danone	BNFP	135	5
Mondelez	MDLZ	145	10
Kellogg	K	145	0
McCormick	MKC	145	0
Kraft Heinz	KHC	155	10
Smucker	SJM	160	5
General Mills	GIS	165	5
Campbell	CPB	190	25

Source: Barclays Research

We provide the fair value framework above as a way to assess relative value in the sector. We discuss the drivers for specific relationships below, but generally think that higher leverage related to M&A requires more of a discount than credits where leverage might be lower. For example, we view Mondelez and Kellogg as having similarly low event risk, with the near-term focus likely to be on portfolio shifts that involve bolt-on activity, as evidenced recently. We think that Kraft Heinz should trade at a 10bp discount to both, reflecting its current leverage and modestly weaker ratings. We find it difficult to add more discount than this for the unknown element of "M&A supply," which remains a concern in the marketplace. Relative to Kraft, we think that General Mills should trade at a 10bp discount (putting it 15-20bp back of Mondelez and Kellogg), given higher leverage and the acquisition of an asset that represents entry to a new category (with its own competitive and channel pressures). Finally, we think that Campbell should trade 25bp behind General Mills, reflecting the potential for weaker ratings and recent underperformance.

Campbell – Initiate at Overweight

We initiate coverage of Campbell with an Overweight rating, as current crossover-like levels (5-10bp inside Bacardi) are pricing in more downside risk than we envision and we expect the next catalyst to be positive (as discussed below). We see limited risk that the credit will be downgraded to high yield in the near term and expect ratings to settle at low-BBB (versus current ratings of Baa2 (Review for Downgrade)/BBB (Negative)). We also note that spreads, while modestly wide of our fair value target in absolute terms, are well wide of our **relative target of a 25bp discount to General Mills**. Admittedly, the story is not without its challenges, with leverage just inside of 5x and the recent closure of the Snyder's-Lance transaction, which has already faced some short-term issues. However, the late-August outcome of the company's strategic review will be important in setting the tone for how investors should view the credit's short-term potential and, specifically, the trajectory of its ratings. In order to retain current ratings, we believe that the company will need to articulate ways to address its current debt load and support deleveraging despite more challenged profit performance expectations for FY19.

There are risks to our rating. The company may not discuss the initiatives outlined below, core performance could worsen further, and there is still a degree of open-ended uncertainty about how weak margin performance could be in FY19. However, at current levels, we think that the bias should be toward starting to add exposure.

Levers to Support Investment Grade Rating

We believe there are levers the company can pull to protect its investment grade rating and expect these to be discussed at the end of August when it announces earnings results and details of the ongoing strategic review. While the announcement of the next CEO will be important in determining the future direction of the company, we are encouraged by the consistent discussion of debt paydown as a priority. To this end, the company could announce several things that would be credit supportive**: 1) potential asset divestitures, with proceeds going toward debt paydown; 2) working capital initiatives that unlock sufficient cash flow over the short term to enable debt paydown and deleveraging; and 3) additional sources of liquidity such as a factoring or accounts receivables securitization program to diversify funding** (similar to those at Kraft Heinz and Newell Brands). Symbolically, while we view it as less likely, we think an announcement that the company could reduce or even hold its dividend constant while focusing on debt paydown would be well received by both the rating agencies and investors.

- We think that the company could consider divesting areas of the business that have been a drag on results.
- We estimate that the company could put roughly a $500mn receivables securitization and factoring program in place to aid liquidity.
- If Campbell were to start extending its days payable outstanding to a level more in line with the industry, as one example of improving working capital, we estimate that it could unlock at least $500mn in cash flow. Year-to-date, the company has extended its DPOs by close to nine days and unlocked $160mn in cash flow y/y. There is room to improve this metric, which currently stands at 59 days, compared with other industry peers that are well over 100 days.

Ratings Downside Limited to One Notch

While we believe that Campbell will try to retain investment grade ratings, there is risk that it could fall to low-BBB if the strategic review does not provide a clear path to deleveraging consistent with what was indicated at the time of the Snyder's-Lance acquisition. Based on the company's original time frame, it had anticipated achieving 3x net leverage by 2022 (we estimate that cash is usually a 0.1-0.2x cushion), which implied close to a half a turn of deleveraging per year. We estimate that pro forma leverage was 4.9x on a gross basis (4.8x net) at the end of F3Q18, and based on our expectations, leverage could tick up 0.1x in FY19 before dropping about 0.5x in FY19 to end at 4.5x on a gross basis. This is predicated on debt paydown of $880mn through the end of FY19 and would represent a one-year delay to the original plan and agency expectations. This does not assume any working capital improvement, nor does it include potential asset sales, either or both of which could be used to help improve the trajectory. **In order to stay close to the original deleveraging plan, we estimate that the company would have to pay down an additional $1bn of debt by the end of FY19.** If this were to occur, we think there is a chance that the company could even retain a mid-BBB rating with negative outlooks.

Divestitures Are Key

The short-term issues related to the Snyder's-Lance deal that have been highlighted by Campbell, as well as lingering issues from past acquisitions (Bolthouse Farms and Garden Fresh), underscore the challenges the company has faced in seeking inorganic growth opportunities. We think that the current strategic review, in which "everything is on the table," could provide a fresh view of the portfolio and allow Campbell to reconsider areas that have been a drag on results. The C-Fresh business has been the subject of recent impairments (related to both Bolthouse Farms and Garden Fresh), and as discussed below, within C-Fresh, goodwill has been written down entirely for Garden Fresh Gourmet and the refrigerated soups business, Bolthouse Farms refrigerated beverages and salad dressings, and Bolthouse Farms carrot and carrot ingredients. These assets also use a different supply chain than the rest of the US business. On the Snyder's-Lance side, the Pop Secret brand, along with Kettle Chips outside the US, were both impaired in 2017, suggesting a downward trend in their growth outlooks.

FIGURE 5
Valuing Past Acquisitions

Acquisition	Acquisition Price	Impairments	% Impaired
Bolthouse	1,550	877	56.6%
Garden Fresh	255	170	66.7%
Total	1,805	1,047	58.0%

Source: Company reports, Barclays Research

Relative to Newell

Outside of the food sector, we think that Newell provides an appropriate comp to Campbell given some of the challenges facing both credits. Both companies have had multiple guidance revisions driven by the challenge of forecasting headwinds accurately (in the case of Newell, sales issues at two key businesses were exacerbated by operational deleveraging, while at Campbell, there was an underappreciation of the severity of the cost environment, worsening the challenges for C-Fresh). That said, some key differences include the CEO departure at Campbell, which could be an important step in bringing in a fresh perspective (particularly if the previous CEO was heavily involved in prior acquisitions), versus departures at Newell in the CFO, chief development officer, and president roles. In terms of the board, there appears to be greater stability at Campbell; while Newell's board was reconstituted more recently, the CEO's posture and commentary related to Starboard's white paper during the last earnings call appear to suggest that some dissonance remains. We also note the presence of two activist investors at Newell (Starboard and Icahn), while the Dorrance family owns more than 40% of Campbell's equity, which we view as more credit supportive (we see a low likelihood of a leveraged buyout, but note that all bonds issued in 2015 to fund the Snyder's transaction have change of control provisions that do not carve out the family). In both cases, deleveraging is likely to be tied to asset sales; while Newell is arguably further down this path, the company's use of proceeds is expected to be biased toward shareholder returns, whereas we expect that Campbell would use proceeds fully for debt reduction. Finally, the lack of coupon steps for Campbell could support investor preference for Newell in the event that ratings risk for Campbell increases.

Recent Results

Fiscal third-quarter earnings were meaningfully below expectations. Notably, adjusted gross margin was down 4pts y/y (to 32.0%). The company described a "challenging" quarter beset by higher-than-expected inflation, transportation and logistics costs, and underperformance in key segment areas (C-Fresh). Leadership is also in a state of transition after Denise Morrison, who had served as president and CEO for the previous seven years, announced her retirement effective immediately. Interim CEO Keith McLoughlin addressed the company's poor performance and announced that a strategic/operational review of all portfolio units will commence, leaving all options on the table. This contrasts with previous guidance in February that was confident in the performance of the entire diversified portfolio. That said, the company reiterated its commitment to deleverage its balance sheet. Total debt stood at $9.6bn, reflecting the acquisition of Snyder's-Lance and Pacific Foods. Management remains pleased with the recent acquisitions, but admits that the unexpected headwinds mentioned above have weakened the near-term outlook.

Higher inflation costs were related to dairy, meat, steel, and aluminum, while supply chain costs affected the C-Fresh segment ($19mn operating loss in the quarter). In addition, manufacturing inefficiencies, reduced carrot crop yields, and increased costs associated with transportation and logistics all contributed to a decline in adjusted gross margin.

Impairments

In conjunction with earnings, Campbell announced that it was impairing its Garden Fresh Gourmet business and portions of its Bolthouse Farms business by $619mn. We estimate that at this point, the company has impaired approximately 60% of the value it paid for Bolthouse and Garden Fresh, indicating that its outlook for the purchases had been too optimistic. The impairments taken in F3Q were in a different area than those in F2Q. Impairments in F3Q were split between the deli reporting unit (composed of Garden Fresh Gourmet and the US refrigerated soup business) and Bolthouse Farms refrigerated beverages and salad dressings. Within the deli unit, the $105mn impairment ($11mn on tangible assets and $94mn on intangible assets) was driven by the loss of a majority of the company's private-label refrigerated soup customers (they plan to in-source production starting in 2019), as well as recent performance in Garden Fresh Gourmet. As a result of the impairment ($81mn of which was related to goodwill), the company has written down the remaining goodwill on the reporting unit. The remaining $514mn impairment charge is related to a reduction in sales growth expectations and a lower gross profit outlook (driven by inflation and manufacturing efficiency pressures) for the Bolthouse Farms refrigerated beverages and salad dressings unit. The charge included a $384mn write-down for goodwill, which represented the balance of what was attributed to the reporting unit. In F2Q18, the company impaired the carrot and carrot ingredients business of Bolthouse Farms (also in the C-Fresh segment) and wrote down the remaining goodwill of that business.

Short-term Pressures

On its earnings call, management noted that it had uncovered some "short-term" issues with Snyder's-Lance in the eight weeks that it had owned the business, including 1) higher-than-expected trade rates implemented by the prior management team; 2) transportation and logistics costs that are not moderating as expected; and 3) issues in relocating Emerald nut production to Charlotte from California owing to greater challenges than expected (by both the current and former management teams) in restarting equipment. **While these issues are not a positive start to the integration process, we believe that current levels more than discount these challenges, and we expect to see some degree of improvement over the next couple of quarters**. With regard to the first issue, the company plans to implement the more disciplined trade process of the Pepperidge Farm business, which should start to provide benefits in F2Q/3Q19.

While the company kept its outlook for the long-term prospects of the business intact, along with synergy expectations, these issues are expected to keep FY19 gross and operating margins under pressure. In addition, we estimate that steel costs (associated with higher tariff-driven pricing) could be a 40bp drag on an annualized basis, with higher costs starting to hit in the latter half of FY19.

Ratings Discussion

Constellation Brands – Raise to Market Weight

Relative to leverage and operational trends in the food sector, we think that Constellation is mis-rated at low-BBB and expect to see ratings trend up in coming months. In our view, the market has increased scrutiny of current balance sheet uses compared with what they will be one to two years forward and is reticent to give credit for the latter. As such, we view Constellation's current market premium as justified and supportive of a Market Weight rating (up from Underweight), particularly given limited M&A risk. We also view current valuations as in line with our fair value target of +15-20bp back of Anheuser-Busch InBev.

General Mills – Raise to Market Weight

With current levels approaching our fair value target and Figure 3 showing that the credit is the second most significant underperformer among BBB food year-to-date, we raise our rating on General Mills to Market Weight from Underweight. In the context of our fair value target of 10bp behind Kraft Heinz and 15-20bp back of Kellogg, we see room for a modest amount of additional widening in the 10y and 30y parts of the curve, but would look for selective opportunities along the curve to begin adding exposure. The freight backdrop remains a headwind for the sector, and we think that the ongoing severity could affect General Mills in the current quarter. While the company's prior guidance adjusted for this, spot market utilization was around 20%, and pricing has only recently started to moderate. We await evidence that some of the initiatives outlined to address this (transportation carrier changes, tighter expense controls, and targeted revenue management actions) have taken hold.

With regard to M&A, General Mills has a solid track record, as exemplified by acquisitions such as Annie's and Lara Bar. While Blue Buffalo puts the company in an entirely new category, the plan to increase market penetration is akin to that for Annie's. The existing management team for Blue Buffalo has also been kept in place. That said, while the company has touted its ability to "keep current channels," ie, support growth in existing channels while expanding into food/drug/mass in the cases of Annie's and Lara Bar, we note that a key difference in the case of Blue Buffalo is that pet specialty, which accounted for 59% of sales in 2017 (versus 48% for the US pet food category), continues to struggle (with recent comps declining in the low to mid-single digits). Furthermore, there is ongoing pressure from comparable private-label entrants (such as Amazon's Wag) that are priced cheaper than Blue Buffalo; while we recognize higher brand loyalty among pet parents and a greater willingness to trade up, this is an area that bears monitoring. Smucker's acquisition of Ainsworth (with growth similarly predicated on distribution gains over the near term) exemplifies that the market is also being crowded by branded competitors.

Kellogg – Maintain Market Weight

We view Kellogg as fairly valued at current spreads, but see room to swap into the credit from Mondelez, as we expect the two to compress. We believe that Kellogg's lower leverage (mid-3x) relative to the sector, coupled with signs of stabilization in key areas such as cereal, demonstrates that it should be viewed as one of the "safer" credits in BBB food, supporting a premium to both General Mills and Kraft Heinz. In terms of M&A risk, the company has recently engaged in small bolt-on activity that is indicative of the strategy management plans to employ over the near term. In addition, we think that portfolio refinement/pruning will persist, as management indicated at CAGNY.

Kraft Heinz – Reiterate Overweight

We reiterate our Overweight rating on Kraft Heinz. While we recognize market concerns about potential M&A supply, we think the current 15bp discount relative to MAPLEE bonds in the intermediate part of the curve prices in a fair amount of that risk. Furthermore, we think that S&P's deleveraging parameters, which call for the company to reduce net leverage to 4x within 24 months of a transformational acquisition, set an outside bound in terms of where leverage could go – we see this as in line with where Keurig Dr Pepper is taking pro forma leverage. That said, absent M&A, we view the company as being squarely focused on improving its credit ratings to work toward gaining tier 2 commercial paper access (ie, A2/P2 ratings), supported by its decision to wind down its receivables securitization and factoring program. In terms of fair value, we think that Kraft Heinz should trade about 10bp behind Kellogg and 20bp inside General Mills, reflecting its leverage (~4x) and a stronger-than-expected start to 2018.

As a reminder, 2018's sales and EBITDA results are expected to be more 2H-weighted than usual. While 2Q is expected to see headwinds similar to 1Q and is lapping the most difficult EBITDA margin comparables, the pace of growth is expected to pick up into the latter half of the year. Specific drivers include 1) transitory headwinds in nuts, cold cuts, and frozen (Ore-Ida) that are turning positive; 2) the benefit of go-to-market capabilities; 3) international growth from innovation and white space opportunities; and 4) the leveraging of greater savings. Notably, cash flow was $500mn higher y/y in the first quarter because of lower cash needs for capex, taxes, and working capital, as management has discussed an improvement in cash generation this year.

Mondelez – Lower to Underweight

We lower our rating on Mondelez to Underweight, as we think that investors should take profit at current tight levels. In our view, Mondelez should trade flat to Kellogg and about 15bp back of Tyson, and as such, **we see room for spreads to widen about 20bp**. Similar to Kellogg, Mondelez is embarking on a portfolio renovation strategy, and while neither is likely to engage in large M&A, we think that investors should be compensated for the higher leverage (we estimate around 4x, reflecting recent debt issuance/tender activity and the Tate's acquisition). The company's focus is shifting from being a margin-centric business toward one focused on execution and top-line opportunities. While power brands will continue to receive the bulk of the company's focus and support, there are some brands that can help drive improved mix through selective support. The company's start to 2018 demonstrated better-than-expected organic sales growth despite North America weakness, and there is potential for upside to the 1-2% top-line growth forecast if trends in North America stabilize.

That said, similar to other food & beverage companies under coverage, Mondelez expects sequential improvement in 2H, particularly with regard to margins. And while the company plans to discuss its new strategic framework in September, we do not expect results to drive any further tightening from current levels, as we anticipate that financial policy will remain largely intact.

We think it is worth highlighting some of the challenges from the first quarter, including unfavorable mix owing to continued weakness in the higher-margin gum category, which the company expects to persist. Strategically, the category provides scale in certain markets, and as such, stranded costs would be a consideration in any evaluation of the business. Over the near term, the company remains pleased with the innovation that is expected to roll out and is focused on improving the cost structure while shifting resources to mints and candy. Higher commodity costs were also an issue, namely in dairy, cocoa, and packaging costs. The company has been passing through dairy-related price increases, which should be completed by midyear. With regard to cocoa, higher hedges from last year and inventory entering the year were a drag (and resulted in an effect that did not mirror the spot market). While this is expected to persist into 2Q, owing to when the hedges were put on, the trend should improve in the latter half of the year because the company has clarity given that it is fully locked in on costs. Finally, higher supply chain costs were an issue in North America, where higher freight and logistics costs were a 210bp drag. In addition, lingering service issues from last year carried into 1Q, although the company expects to see improvement as the year progresses.

Tyson – Raise to Overweight

We raise our rating on Tyson to Overweight, as we view it as a credit that has been pulled along with the rest of the sector, driven in part by concerns about tariffs, as well as higher input/freight costs. In our view, Tyson should trade about 15bp tighter than current levels, cutting the differential relative to Sysco by half in the intermediate part of the curve. Tyson has the lowest leverage among the mid-BBB rated food names and one of the strongest track records of M&A integration and deleveraging, which gives us comfort in its ability to utilize its balance sheet if the opportunity arises. While the company has recently made acquisitions to the tune of $1bn (including rendering assets and an organic chicken producer), it also continues to prune its portfolio (selling the Sara Lee frozen bakery and Van's frozen waffle and cereal businesses) and remains committed to a 2x leverage target before returning to a more balanced financial policy. Finally, we are encouraged by the pricing confidence that Tyson has displayed in terms of offsetting some of its commodity headwinds, which is notable in the packaged foods sector.

Trade Ideas

- Sell GIS 4s of 2025 (quoted 133/125, g-spread of 133bp, $99) and buy CPB 3.95s of 2025 (quoted 172/167, g-spread of 168bp, $96) to pick 35bp, versus our fair value target of 25bp, while taking out 3pts.
- Sell GIS 4.2s of 2028 (quoted 158/153, g-spread of 158bp, $98) and buy CPB 4.15s of 2028 (quoted 194/189, g-spread of 189bp, $95) to pick 30bp, versus our target of 25bp, while taking out 3pts.
- Buy KHC 2029s (quoted 180/177, g-spread of 177bp, $99), as we view levels as attractive, 10bp back of Maple Escrow (MAPLEE) and roughly 20bp behind General Mills. In our view, KHC should trade 10bp inside GIS and about 20bp through MAPLEE.
- Sell MDLZ 2028s (quoted 132/127, g-spread of 132bp, $99) and buy K 2028s (quoted 149/145, g-spread of 145bp, $99) to pick up 13bp. We expect this relationship to compress to flat.

- Sell TSN 2019s (quoted 43/33, g-spread of 59bp, $100) and buy TSN 2021s (quoted 92/82, g-spread of 80bp, $96) to pick up 20bp while taking out 4pts.
- Buy CPB 3.95s of 2025 (quoted 172/167, g-spread of 168bp, $96), as we view the 10bp pickup relative to a 4pt dollar differential versus the 3.3s of 2025 to be attractive on the curve.
- Buy GIS 3.15s of 2021 (quoted 88/78, g-spread of 72bp, $99) or GIS 2.6s of 2022 (quoted 95/85, g-spread of 88bp, $96) – both appear relatively attractive on the curve given the spread pickup versus other bonds in the front end.

Analyst Certification

I, Priya Ohri-Gupta, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Issuers/Bonds

CAMPBELL SOUP CO, Overweight, A/CD/CE/D/J/K/L/M
Representative Bond: CPB 4.15 03/15/28 (USD 94.43, 07-Jun-2018)
Representative Bond: CPB 4.8 03/15/48 (USD 88.17, 07-Jun-2018)

CONSTELLATION BRANDS INC, Market Weight, CD/CE/D/J/K/L/M/N
Representative Bond: STZ 3.6 02/15/28 (USD 95.16, 07-Jun-2018)
Representative Bond: STZ 4.1 02/15/48 (USD 89.82, 07-Jun-2018)

GENERAL MILLS INC, Market Weight, A/CD/CE/D/J/K/L/M/N
Representative Bond: GIS 4.2 04/17/28 (USD 97.68, 07-Jun-2018)
Representative Bond: GIS 4.7 04/17/48 (USD 95.33, 07-Jun-2018)

KELLOGG CO, Market Weight, A/CD/CE/D/J/K/L/M/N
Representative Bond: K 4.3 05/15/28 (USD 99.09, 07-Jun-2018)

KRAFT HEINZ FOODS CO, Overweight, A/CD/D/E/J/K/L/M
Representative Bond: KHC 4 5/8 01/30/29 (USD 99.34, 07-Jun-2018)

MONDELEZ INTERNATIONAL INC, Underweight, A/CD/CE/D/GE/J/K/L/M
Representative Bond: MDLZ 4 1/8 05/07/28 (USD 99.13, 07-Jun-2018)
Representative Bond: MDLZ 4 5/8 05/07/48 (USD 96.12, 07-Jun-2018)

TYSON FOODS INC, Overweight, A/CD/CE/D/J/K/L/M
Representative Bond: TSN 3.55 06/02/27 (USD 94.23, 07-Jun-2018)
Representative Bond: TSN 4.55 06/02/47 (USD 95.02, 07-Jun-2018)

Materially Mentioned Issuers/Bonds

CAMPBELL SOUP CO, Overweight, A/CD/CE/D/J/K/L/M
CPB 3.95 03/15/25 (USD 96.07, 07-Jun-2018)

GENERAL MILLS INC, Market Weight, A/CD/CE/D/J/K/L/M/N
GIS 2.6 10/12/22 (USD 95.56, 07-Jun-2018)
GIS 3.15 12/15/2021 (USD 98.85, 07-Jun-2018)
GIS 4 04/17/25 (USD 98.97, 07-Jun-2018)

TYSON FOODS INC, Overweight, A/CD/CE/D/J/K/L/M
TSN 2 1/4 08/23/21 (USD 96.10, 07-Jun-2018)
TSN 2.65 08/15/19 (USD 99.69, 07-Jun-2018)

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Overweight (OW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to exceed the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

Market Weight (MW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be in line with the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

Underweight (UW):
For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be less than the six-month excess return of the relevant index.
For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

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Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.
Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.
Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.
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Overweight (OW): The analyst expects the six-month total return of the debt security subject to this rating to exceed the six-month expected total return of the relevant sector.
Market Weight (MW): The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.
Underweight (UW): The analyst expects the six-month total return of the rated debt security subject to this rating to be less than the six-month expected total return of the relevant sector.
Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.
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24% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 48% of bonds with this rating category are investment banking clients of the Firm; 76% of the issuers with this rating have received financial services from the Firm.

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Market Weight (MW):
The analyst expects the three-month excess return of the country's index eligible bonds to be in line with the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.
Underweight (UW):
The analyst expects the three-month excess return of the country's index eligible bonds to be less than the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.
Rating Suspended (RS):
The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity.

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37% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 21% of issuers with this rating category are investment banking clients of the Firm; 71% of the issuers with this rating have received financial services from the Firm.
32% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 58% of issuers with this rating category are investment banking clients of the Firm; 100% of the issuers with this rating have received financial services from the Firm.

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