

**Zoetis Inc.**

ZTS - BUY - January WASDE Data Continues to Be Positive for ZTS

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SECTOR: Specialty Pharmaceuticals

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The USDA released its monthly WASDE (World Agriculture Supply and Demand Estimates) today. The report supports our belief that livestock expansion for poultry and swine will pick up in 2014 and cattle will pick up in 2015. This would be good for ZTS (BUY, \$31.96) because 64% of its revenues in 3Q13 came from livestock. The key data points that support our positive investment thesis are highlighted below.

- Corn (energy crop) production is forecasted 64MM bushels lower to 13.9B bushels. The 2013/2014 projected season-average farm price for corn is unchanged at the midpoint with the range narrowed to \$4.10 to \$4.70 (down 32% to 41% since 2012). The price of corn was \$6.90 in 2012.

- Soybean (protein) production is projected at 3.3B bushels, up 31M based on increased yields and harvested areas. The 2013/2014 U.S. season-average soybean price is projected at \$11.75 to \$13.25 per bushel based on prices reported to date (down 8% to 18% since 2012), adjusted \$0.25 at both ends of the range (was \$11.50 to \$13.50 in December). The price of soybean was \$14.40 in 2012.

The *Quarterly Hogs and Pigs* report, released on December 27, indicated that the September-November pig crop was fractionally below a year earlier, which will constrain supplies of slaughter hogs in early 2014. Although producers intend to farrow more sows in the first half of 2014, the impacts of the Porcine Epidemic Diarrhea virus (PEDv) will likely slow growth in pigs per litter and keep supplies of market hogs relatively tight during 2014.

For 2014, the cattle price forecast is raised from last month as demand for fed cattle remains strong. Hog prices are raised as the production forecast is lowered. Broiler and turkey price forecasts are raised from last month.

**Potential Stock Moving Catalysts.** 1) Operating margin expansion; 2) new product launches; 3) business development; 4) expansion into adjacent categories; 5) U.S. drought subsidies.

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