

ZTS, PAHC - BUY - November WASDE Supports Our Positive Thesis

SECTOR: Specialty Pharmaceuticals

November 10, 2014

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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. We believe this would be good for ZTS (BUY, \$40.23) because 66% of its revenues in 3Q14 came from the livestock business. This is also positive for PAHC (BUY, \$28.34) where 100% of its revenues comes from livestock animals.

The key data points that support our positive investment thesis are highlighted below.

- The projected range for the season-average farm corn price is raised 10 cents on each end to \$3.20 to \$3.80 per bushel. October corn price was \$3.10 to \$3.70 per bushel.
- Soybean and soybean product prices for 2014/15 are unchanged from last month. The U.S. season-average soybean price range is projected at \$9.00 to \$11.00 per bushel.
- The forecast for total meat production in 2014 is raised from last month, but the forecast for 2015 is lowered. Beef production is higher in 2014 but lowered for 2015. Cattle feeders are expected to raise animals to heavier weights in 2014 and 2015, but this is more than offset by a slower pace of marketing in the second half of 2015. Pork production is forecast lower in both 2014 and 2015, as hog weights are expected to reflect a more rapid movement of animals through finishing barns. Broiler production is raised for 2014 and 2015 as producers have expanded at a more rapid rate. Turkey production for 2014 is raised, reflecting September slaughter data, but the forecast for 2015 is unchanged. Egg production is raised for 2014 based on September data and the forecast for 2015 is raised, as favorable returns are expected to stimulate a more rapid expansion.
- Cattle price forecasts for 2014 and 2015 are raised from last month on continued demand strength. The hog price forecasts for 2014 are lowered on weaker demand, but 2015 prices are unchanged. Broiler and turkey price forecasts for 2014 and 2015 are unchanged. Egg price forecasts for 2015 are reduced on higher production.

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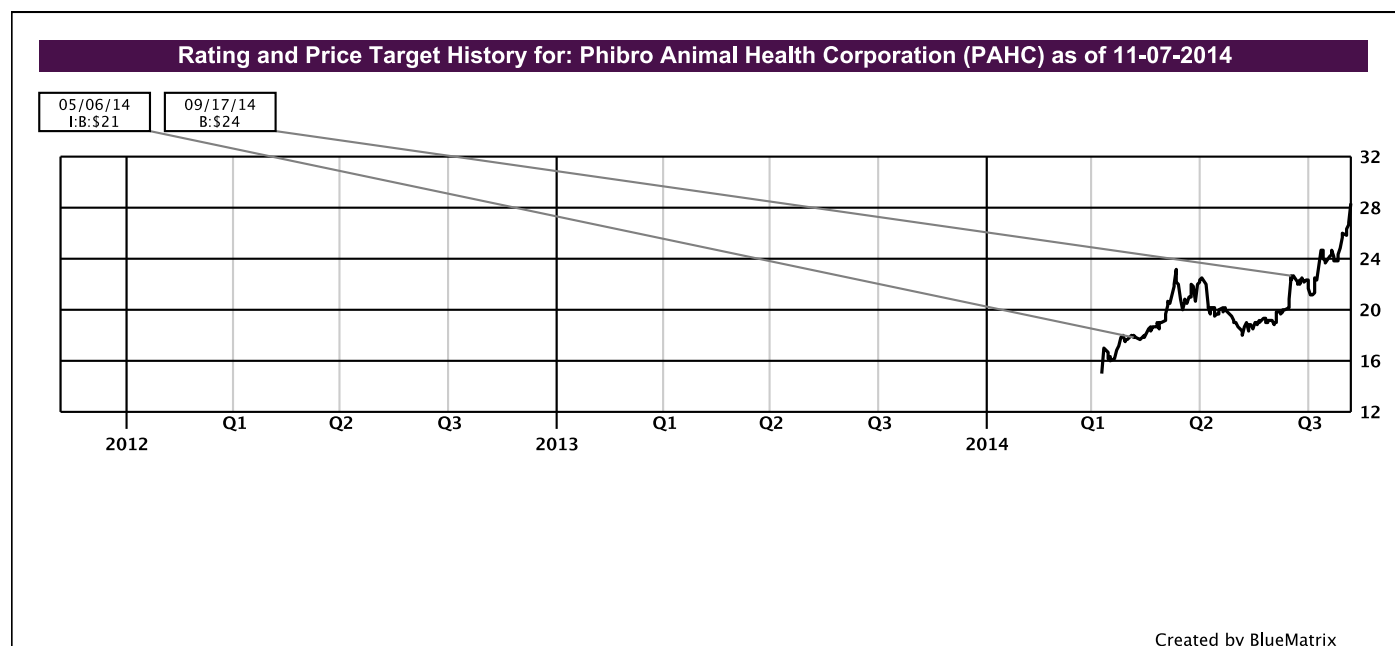
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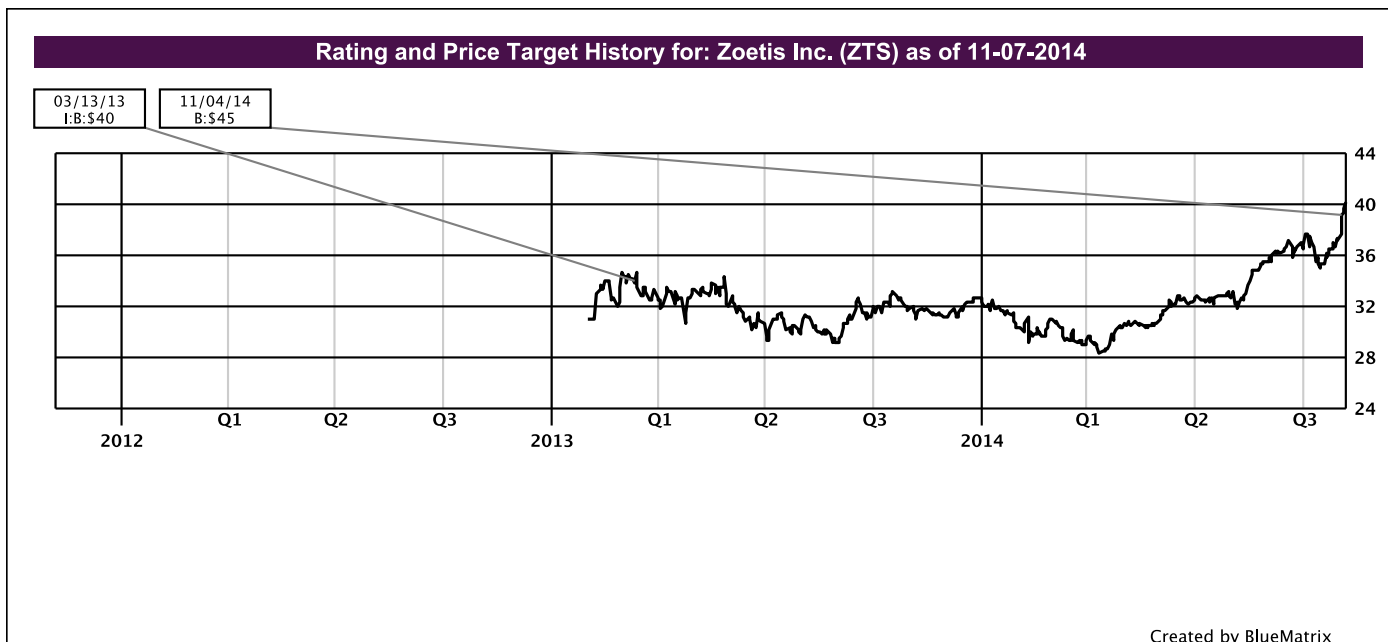
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