

ZTS, PAHC - BUY - January WASDE: Slight Increase in Feed Prices, Expansion of Pig Litters & Cattle Herds

SECTOR: Specialty Pharmaceuticals

January 12, 2015

Conclusions: The USDA released its January WASDE (World Agriculture Supply and Demand Estimates) today. The report points to a modest increase in feed prices, which are still low relative to highs during '12. Also, pig litters are increasing and cattle herds continue to expand. This is good for ZTS (BUY, \$44.25) because 66% of its revenues in 3Q14 came from the livestock business. This is also positive for PAHC (BUY, \$30.23) because 100% of its revenues come from livestock animals.

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

- The '14/'15 projected range for the U.S. season average corn farm price is raised 15 cents on each end to \$3.35 to \$3.95 per bushel from \$3.20 to \$3.80 per bushel last month
- The '14/'15 U.S. season-average farm price for soybeans is projected at \$9.45 to \$10.95 per bushel, up 20 cents at the midpoint based on prices reported to date.
- The forecast for total meat production for '15 is raised from last month on increased beef and pork production. Poultry production forecasts are unchanged. Beef production is raised on higher carcass weights. USDA's Quarterly Hogs and Pigs report indicated farrowings increased 3% in September-November '14 and that producers intend to expand farrowings by 4% during December-May '15. The report also showed that pigs per litter were a record high for the September-November period; continued growth in pigs per litter is expected during '15, resulting in greater availability of hogs for slaughter. However, the increase in the number of slaughter hogs may be partly offset by lower weights as hogs are marketed more rapidly. For '14, the total meat production estimate is raised on higher pork and broiler production. Beef production is reduced on a **slightly slower pace of slaughter**.
- The cattle price forecasts for '15 are reduced from last month. The hog price forecast for '15 is lowered on larger supplies. Broiler prices are lowered for '15 as supplies of competing meats pressure prices.

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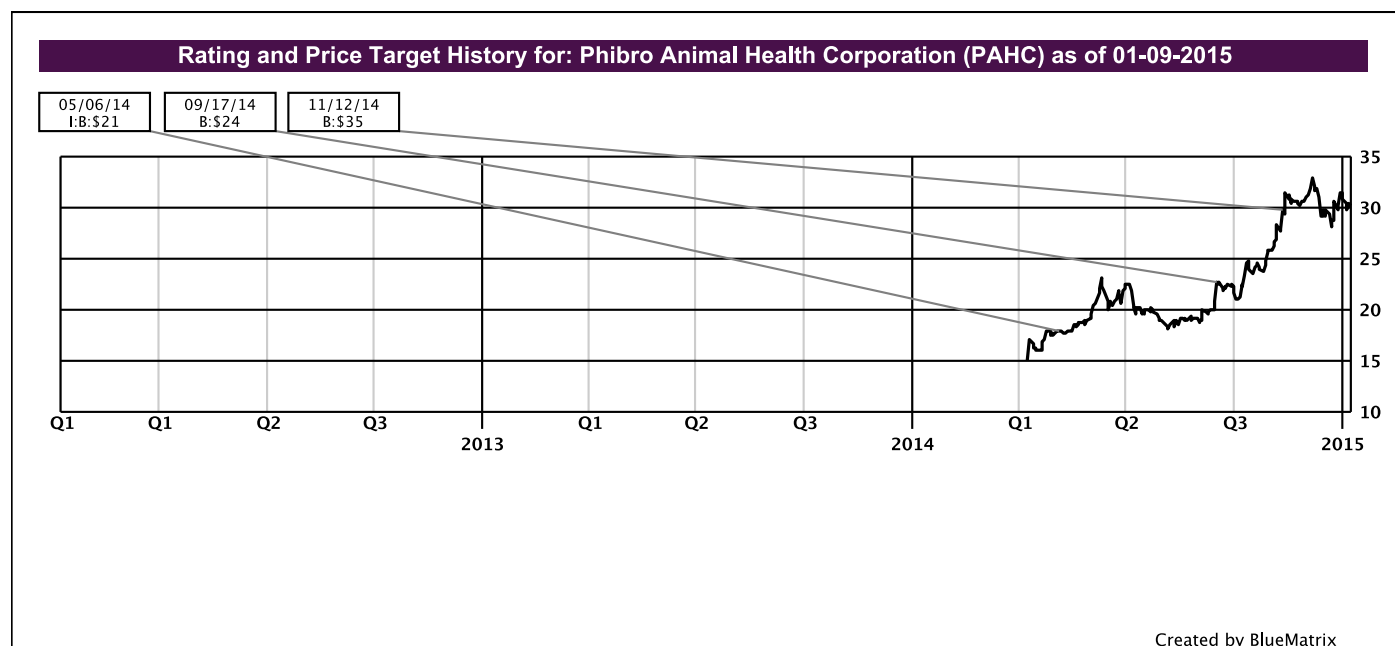
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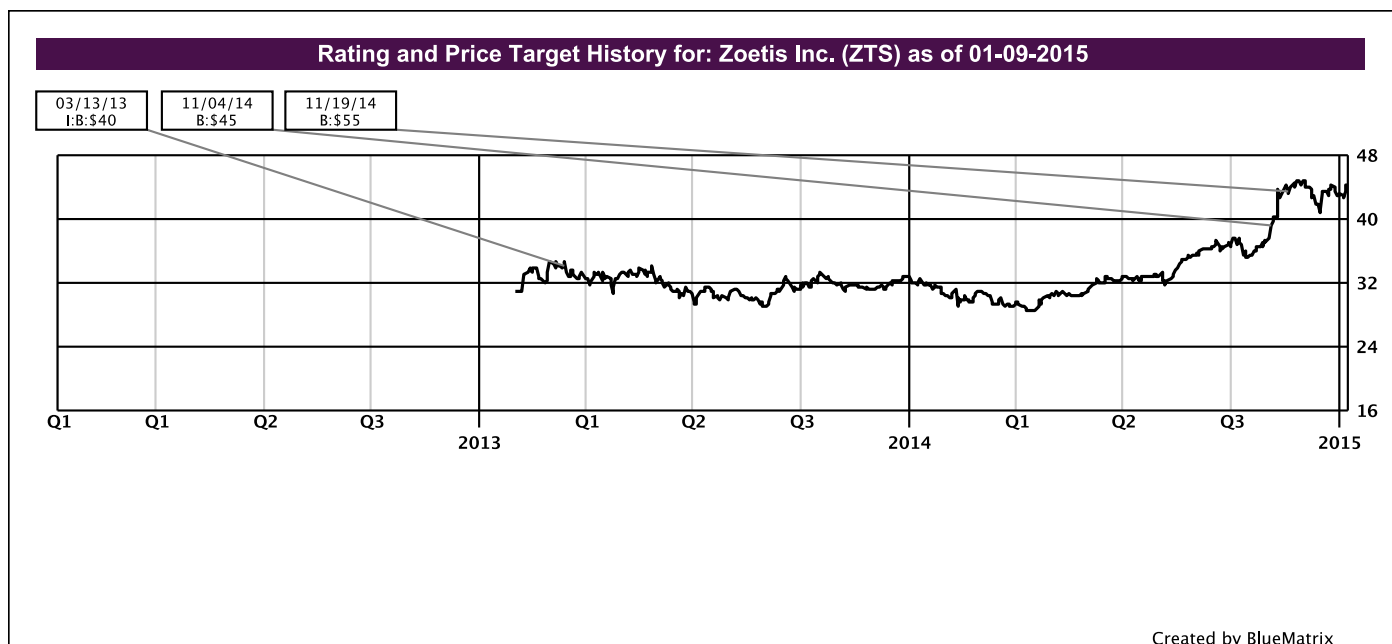
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