

ZTS, PAHC-BUY-WASDE Underscores That Feed Prices and Cattle Slaughter Continue to Decline

SECTOR: Specialty Pharmaceuticals

September 11, 2014

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, \$36.24) because 62% of its revenues in 2Q14 came from the livestock business. This is also positive for PAHC (BUY, \$19.85) where 100% of its revenues come from livestock animals.

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

- Projected U.S. corn ending stocks are raised 194 million bushels to 2,002 million and would be the highest since 2004/05. The projected season-average corn farm price is lowered 40 cents at the midpoint to \$3.20 to \$3.80 per bushel.
- Soybean and product prices are all projected lower for 2014/15. The U.S. season-average soybean price is projected at \$9.00 to \$11.00 per bushel, down 35 cents on both ends of the range. Global oilseed production for 2014/15 is projected at a record 528.0 million tons, up 6.2 million from last month. Soybeans account for most of the change.
- The forecasts for total meat production in 2014 and 2015 are reduced from last month. For 2014, beef production is down as supplies of cattle coming out of feedlots have been below expectations. Pork production is marginally lower as higher dressed weights are more than offset by a reduction in slaughter. Broiler production is increased as hatchery data shows stronger increases in the number of eggs set and chicks placed. Turkey production is slightly higher based on production data to date.
- For 2015, beef production is cut as lower placements of cattle in the second half of 2014 are expected to reduce supplies of fed cattle in 2015 despite heavier carcass weights. Pork production is higher on heavier dressed weights. Broiler production is raised as expected favorable returns support further expansion by producers. Forecasts for 2014 and 2015 beef imports are higher due to tight cull cow supplies and strong consumer demand for processing grade beef.
- The cattle price forecast for 2014 is raised from last month on tightness in supplies of fed cattle. The price forecast for 2015 is unchanged. Hog price forecasts for 2014 and 2015 are lowered from last month as recent lower price levels are expected to carry into next year. Broiler price forecasts for 2014 and 2015 are lowered as supplies increase. The turkey price forecast for 2014 is raised based on recent price data, with the forecast for 2015 unchanged.

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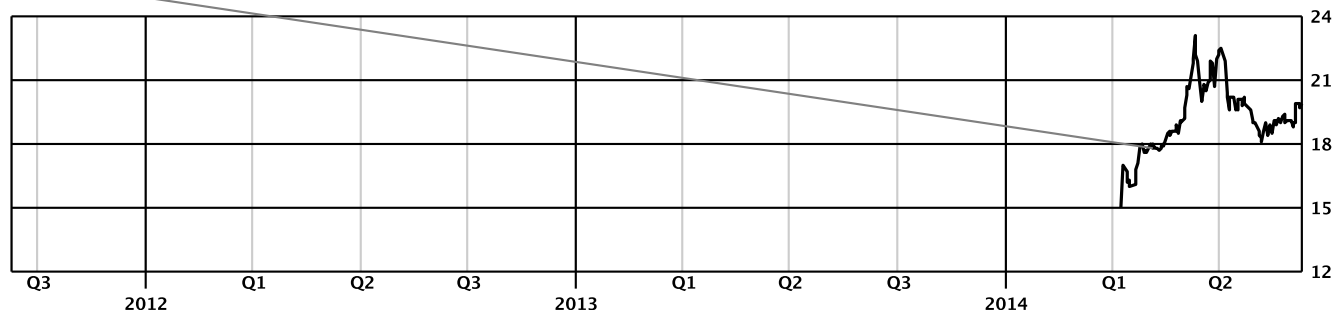
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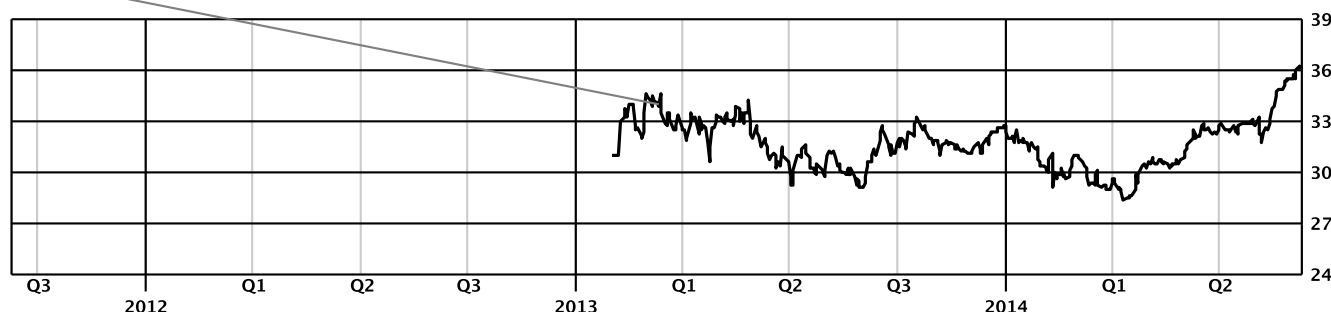
Rating and Price Target History for: Phibro Animal Health Corporation (PAHC) as of 09-10-2014

05/06/14
I:B:\$21



Created by BlueMatrix

Rating and Price Target History for: Zoetis Inc. (ZTS) as of 09-10-2014

03/13/13
I:B:\$40

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