

ZTS, PAHC - BUY - October WASDE Continues to Support Our Positive Thesis

SECTOR: Specialty Pharmaceuticals

October 10, 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, \$37.02) because 62% of its revenues in 2Q14 came from the livestock business. This is also positive for PAHC (BUY, \$22.39) where majority of its revenues come from livestock animals.

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

- Corn ending stocks are raised 79 million bushels to 2,081 million. The projected range for the season-average farm price is lowered 10 cents on each end to \$3.10 to \$3.70 per bushel.
- Prices for soybeans are unchanged. In September the U.S. season-average soybean price was projected at \$9.00 to \$11.00 per bushel.
- The forecasts for total meat production in 2014 and 2015 are raised from last month. For both 2014 and 2015, the increase in beef production is driven by heavier carcass weights as lower corn prices encourage producers to market heavier cattle. Pork production in 2014 is reduced from last month as slower gains in carcass weights in 2H14 more than offset higher expected 4Q14 slaughter. For 2015, the production forecast is raised because the estimated decline in 3Q14 pigs per litter was less than during 1H14. With higher indicated farrowing intentions for 4Q14 and into 2015, and slightly more rapid forecast recovery in pigs per litter, it is expected that a greater number of hogs will be available for slaughter during 2015. Increased pork production will also be supported by higher carcass weights. Broiler productions for 2014 is unchanged, but lower forecast feed costs are expected to encourage more rapid production growth in 2015. Turkey production for 2014 is slightly higher based on production data to date; however, the production forecast for 2015 is unchanged.
- The cattle price forecasts for 2014 and 2015 are unchanged from last month. The hog price forecast for 2014 is unchanged, but the 2015 price is lowered on larger supplies. The broiler price forecasts for 2014 and 2015 are raised on robust demand. The turkey price forecasts for 2014 and 2015 are unchanged.

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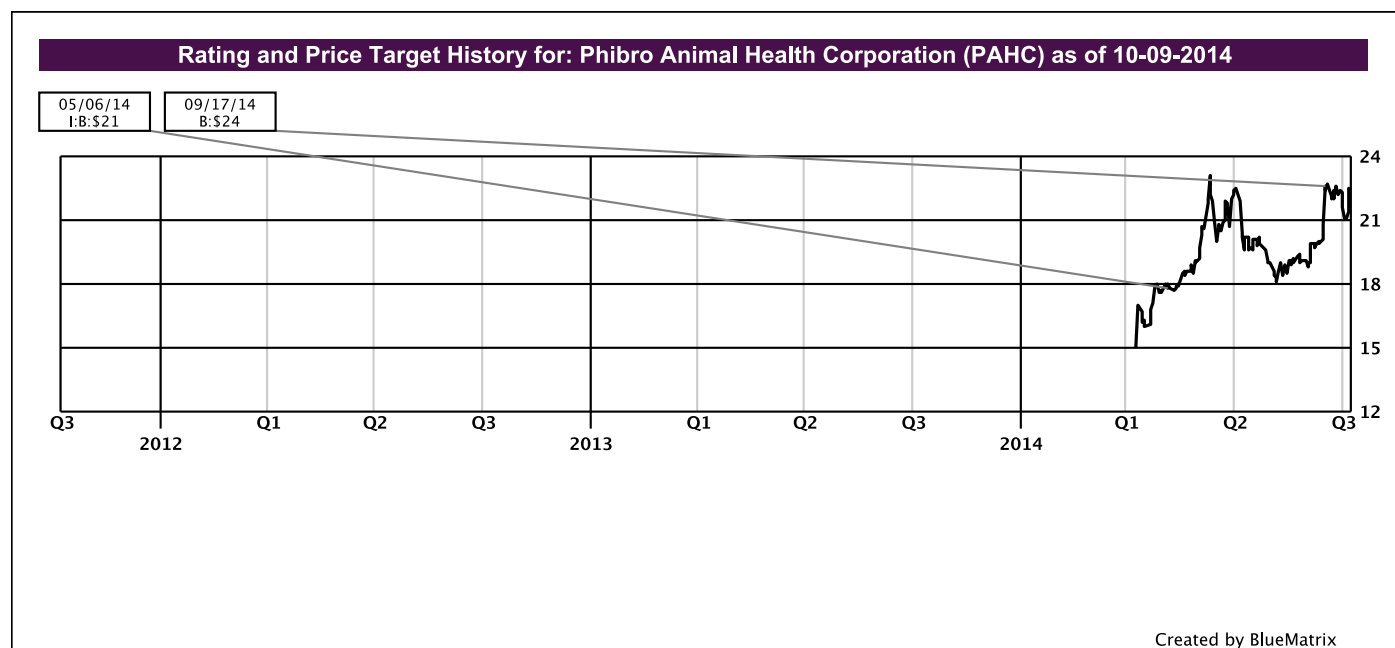
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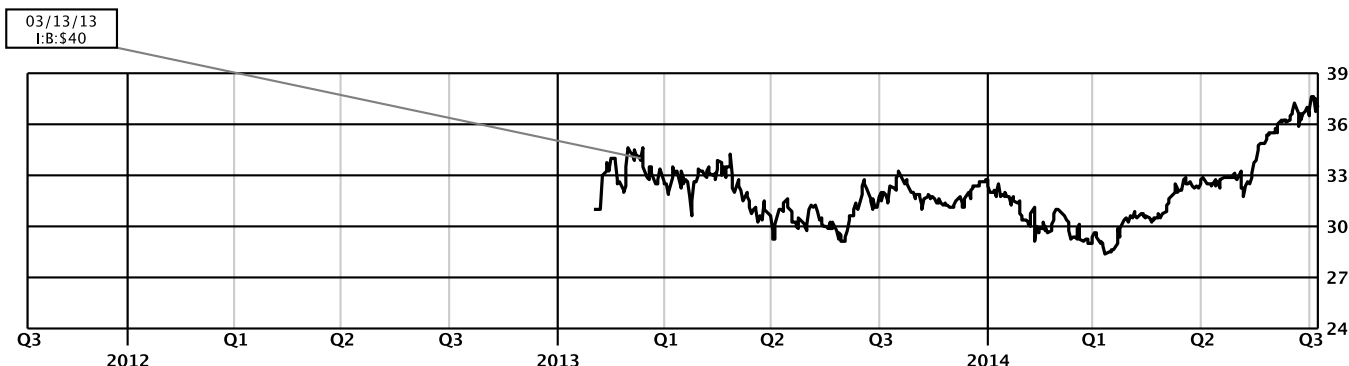
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Rating and Price Target History for: Zoetis Inc. (ZTS) as of 10-09-2014



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