

ZTS, PAHC - BUY - April WASDE Highlights Low Feed Prices and Good Demand for Fed Cattle

SECTOR: Specialty Pharmaceuticals

April 9, 2015

Conclusion: The USDA released its April WASDE (World Agriculture Supply and Demand Estimates) today. The report supports our positive view on the Animal Health industry. Feed prices remain low and an increase in cattle prices, due to raised demand for fed cattle, suggests good profitability for producers will continue to sustain the use of Animal Health drugs. These data points support our positive investment thesis for ZTS (BUY, \$46.21) because 66% of its revenues in 2014 came from the livestock business. This is also positive for PAHC (BUY, \$34.06) because 100% of its revenues come from livestock animals.

The key comments that support our positive investment thesis for Animal Health companies are highlighted below.

- The 2014/15 projected range for the U.S. season average corn farm price is narrowed \$0.05 on each end to \$3.55 to \$3.85 from \$3.50 to \$3.90 per bushel last month.
- The 2014/15 U.S. season-average farm price for soybeans is lowered \$0.10 at the midpoint to \$9.60 to \$10.60 per bushel, from \$9.45 to \$10.95 last month.
- The 2015 forecast of total red meat and poultry production is raised from last month as higher beef and pork production more than offset lower turkey production. The forecast for broiler production is unchanged. Beef is higher on greater cow slaughter and heavier carcass weights. Pork production is increased on higher-than-expected first quarter slaughter and expectations of larger second-half slaughter. USDA's Quarterly Hogs and Pigs report, released on March 27, estimated the December-February pig crop was 9 percent higher and indicated that producers intend to farrow 2 percent more sows in March-May.
- Cattle prices for 2015 are raised as demand for fed cattle remains strong. The hog price forecast is reduced as greater production pressures prices. Broiler prices are unchanged at the midpoint.

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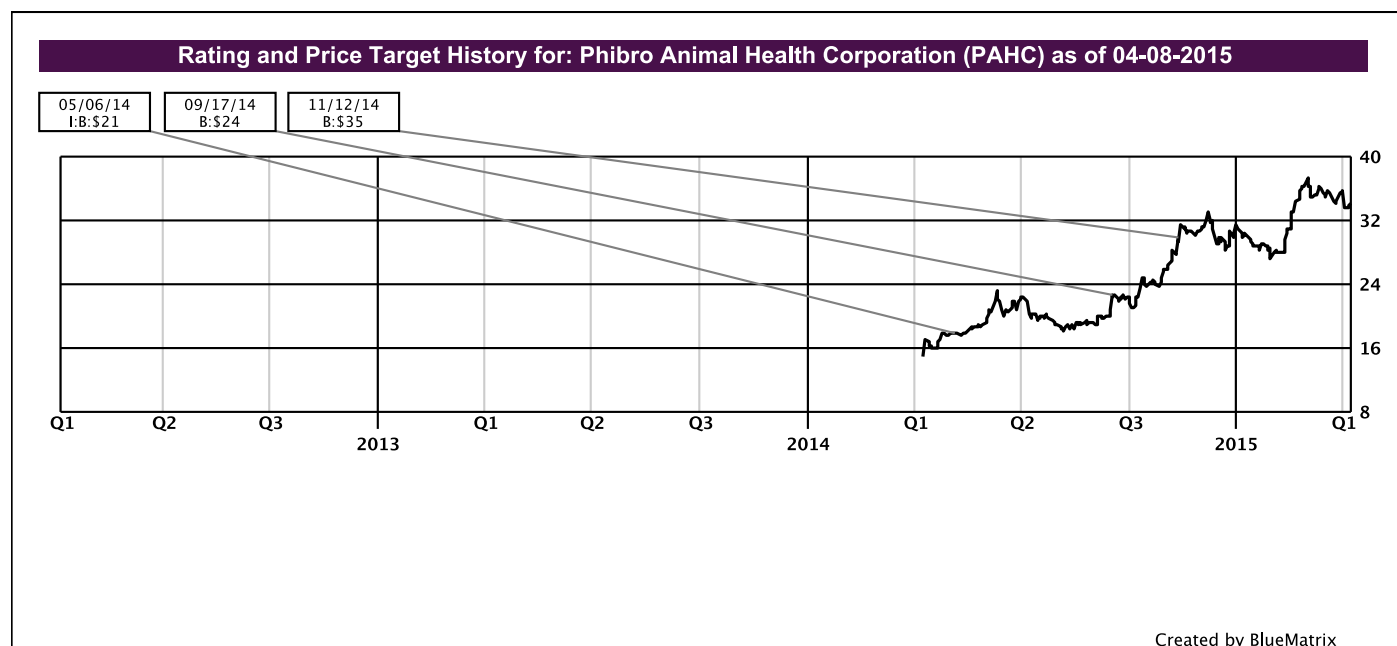
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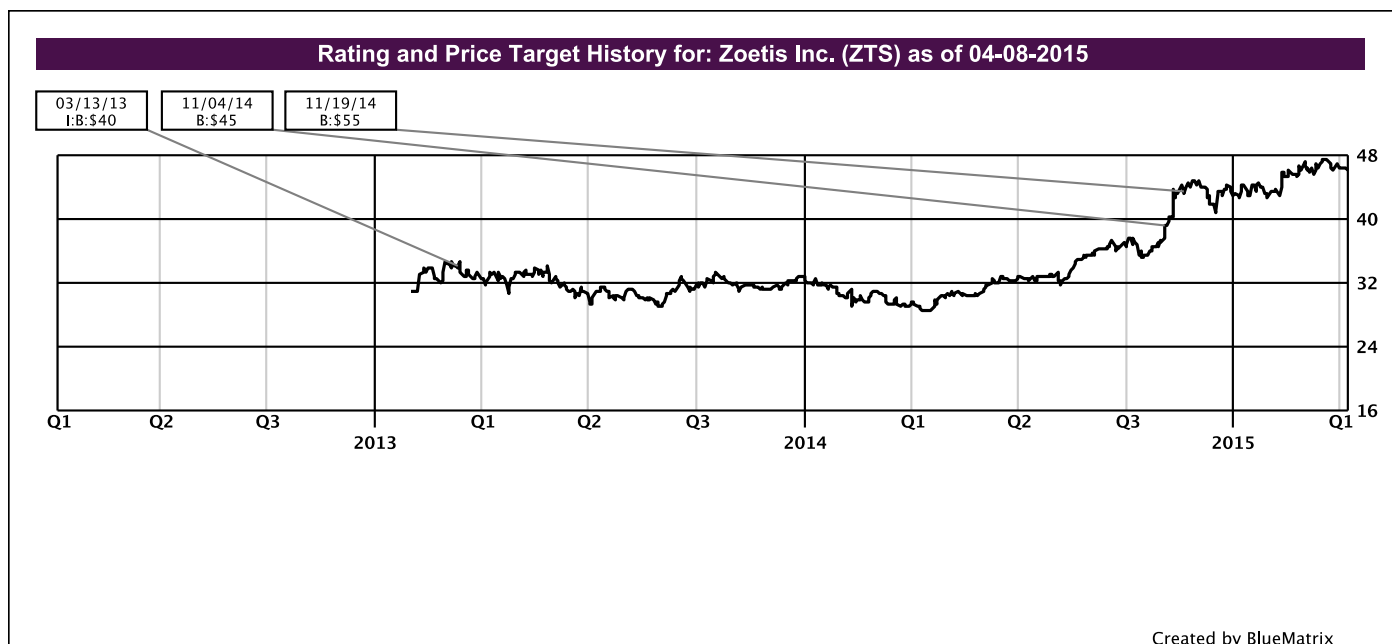
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