

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

SECTOR: Specialty Pharmaceuticals

December 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, \$43.82) because 66% of its revenues in 3Q14 came from the livestock business. This is also positive for PAHC (BUY, \$32.12) as 100% of its revenues come from livestock animals.

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

- The projected range for the U.S. season-average corn farm price is unchanged, at \$3.20 to \$3.80 per bushel.
- The U.S. season-average soybean price range for 2014/15 is projected at \$9.00 to \$11.00 per bushel, unchanged from last month.
- The forecast for total meat production in 2014 is lowered from last month, as lower beef production in the fourth quarter more than offsets increased pork production. Beef production is reduced as slaughter is expected to be lower. However, carcass weights remain heavy, which partly offsets the decline. Hog slaughter for the fourth quarter is increased from last month as slaughter to date has been strong. A small revision is made to third-quarter broiler slaughter but the forecasts for fourth quarter broiler and turkey production are unchanged.
- For 2015, total meat production is slightly higher on a small increase in beef production; other production forecasts are unchanged. USDA will release its Quarterly Hogs and Pigs report on December 23, providing an indication of producers' sow farrowing intentions into 2015.
- The cattle price forecasts for 2014 and 2015 are raised from last month on continued demand strength and tight supplies of fed cattle. The hog price forecast for 2014 is lowered on current prices, but the 2015 price is unchanged. The broiler and turkey price forecasts for 2014 are raised. The turkey price forecast is increased for 2015 but broilers are unchanged.

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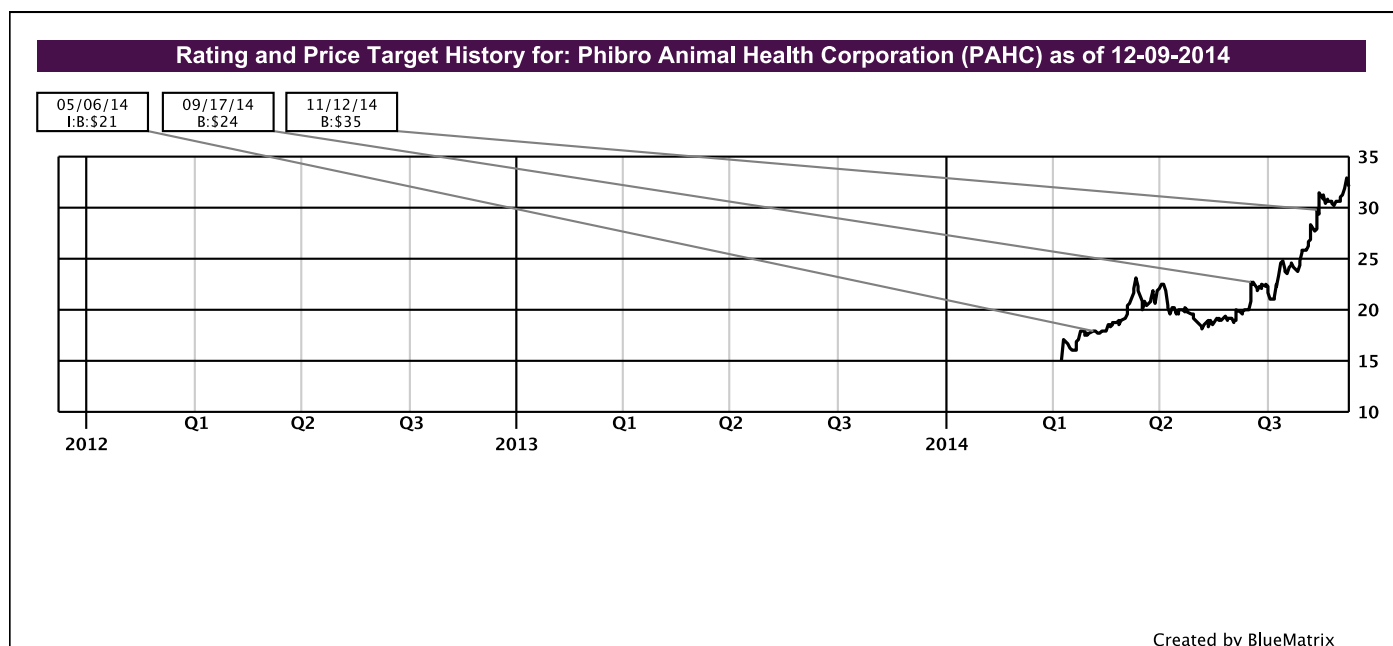
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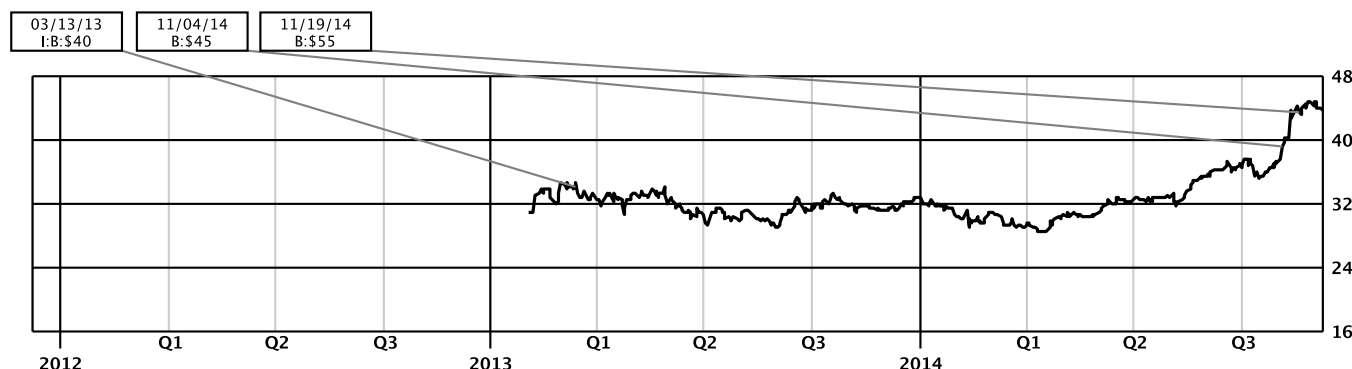
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Rating and Price Target History for: Zoetis Inc. (ZTS) as of 12-09-2014



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