

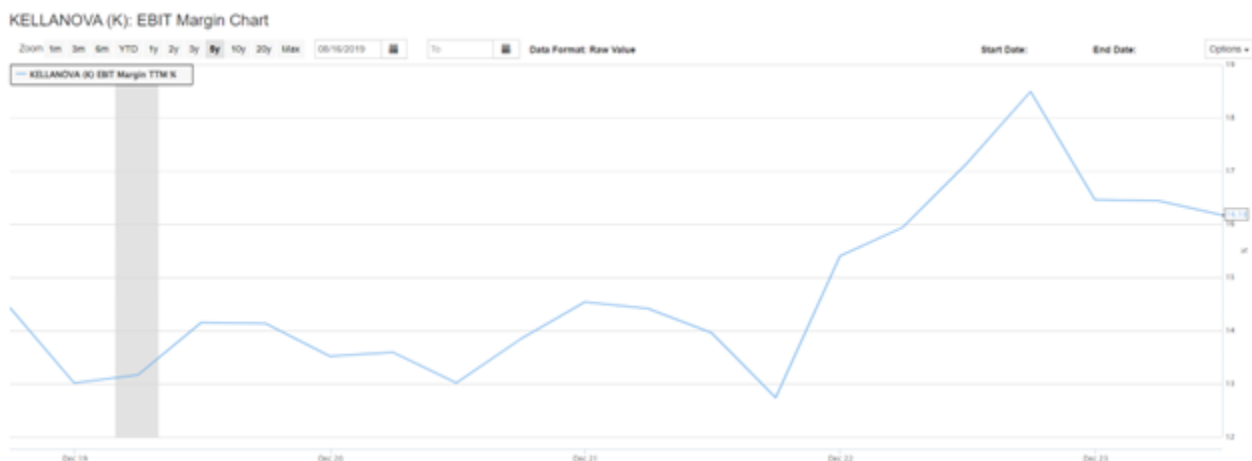
Friday Favorites- Kellanova (K)

Kellanova (K)

Tuesday's [commentary](#) began with a section about statements made by Kamala Harris as part of her election campaign. As we wrote:

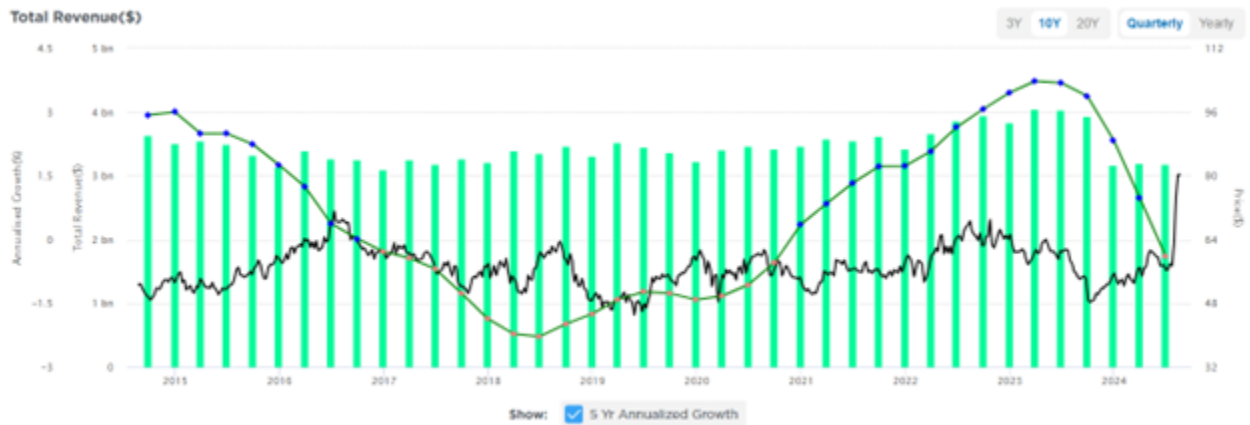
“Recently, Kamala Harris proposed that if elected, she would implement a ban on price gouging for food and groceries. Her goal is to lower inflation, as food prices have risen by about 20% over the last four years. The Harris campaign says the price gouging measure sets *“clear rules of the road to make clear that big corporations can’t unfairly exploit consumers to run up excessive corporate profits on food and groceries.”*

We argued that traditional grocery chains tend to be very competitive and settle for low margins. Thus, there’s little room for price gouging and little evidence of it for that matter. However, a company farther up the supply chain bears risk if this anti-gouging policy comes to fruition. Kellanova, formerly known as Kellogg before spinning off its cereal business, has maintained profit margins well above pre-pandemic levels after raising prices precipitously over the last few years.

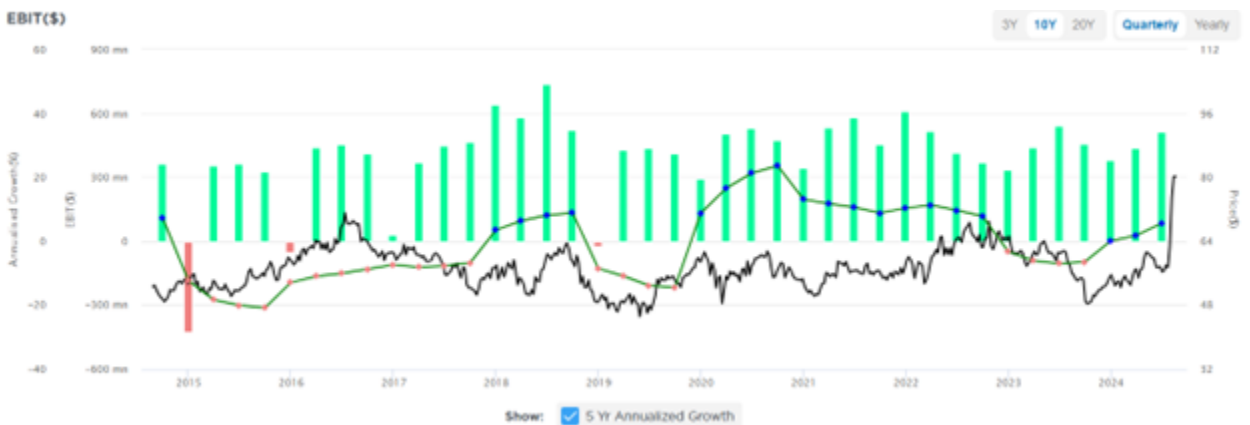


Fundamentals

Kellanova (K) is a cash cow that displayed increasing revenue growth in the years leading up to the spin-off of its cereal arm. There are two aspects to the chart below that need to be addressed. First, readers should recognize that the decrease in revenue during the fourth quarter of 2023 is spin-off related rather than declining sales. The other abnormality in the chart is the stock price, which is shown in black. The recent spike results from a \$35 billion takeover deal for Mars to acquire Kellanova.



EBIT, or earnings before interest and taxes, has grown slightly faster than revenue in the days since the pandemic as margins have expanded. The expansion has been driven by pricing power that has allowed Kellanova to raise prices at a faster rate than expenses have increased. This pricing power was born of supply chain shortages in the aftermath of the pandemic, where food-at-home suppliers with well-established supply chains gained the upper hand.



Kellanova is trading at elevated valuations due to the takeover deal mentioned above. However, the stock was trading at roughly average valuations before the announcement.



Technicals

Kellanova was trending higher for ten months leading up to the announcement of the Mars acquisition. The stock has rocketed into significantly overbought territory following the announcement, as shown below. RSI (87.8) is well above any period in the past three years. Similarly, MACD has risen to unprecedented levels as investors rush in to profit from the acquisition potentially. The stock price is likely to stay elevated as long as there's no anti-trust

scrutiny of the deal.



Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.