



Canada's Sweet Chocolate Blues

Description

Canada's Competition Bureau recently [charged](#) three companies — including a subsidiary of Swiss food giant **Nestlé SA** (NASDAQOTH: NSRGY) — with price-fixing chocolate products sold here.

A fourth company, **Hershey Canada**, a subsidiary of U.S. chocolatier **Hershey Co.** ([NYSE: HSY](#)), cooperated in the investigation through The Competition Bureau's Immunity Program and will be given leniency. Hershey plans to plead guilty to one count of price-fixing.

Nestlé and Hershey are high-profit-margin businesses dealing with a temporary set-back. Price-fixing schemes hurt consumers and reputation. However, don't let this blip scare you away from these stocks.

Nestlé and Hershey should not be overlooked as possible investments. They are dominating businesses with long histories of creating shareholder value. They will overcome this price-fixing issue.

What happened

On June 6, Canada's Competition Bureau announced charges against **Nestlé Canada; Mars Canada; and ITWAL Limited**, an Ontario-based network of independent wholesale distributors.

The Competition Bureau also levied price fixing charges against Robert Leonidas, former president of Nestlé Canada; Sandra Martinez, former president of confectionery for Nestlé Canada; and David Glenn Stevens, president and CEO of ITWAL.

Both Mars and Nestlé said they intend to "vigorously defend" themselves against the allegations, according to Reuters.

Taking a slightly different approach, Hershey has come clean, indicating that it regrets what happened and blamed workers who had already left the company. Hershey Canada will plead guilty to one count of price-fixing related to communications with competitors in Canada in 2007.

Canadian chocolate market

Canadians love chocolate and most of the market is controlled by foreign multi-nationals. The chocolate confectionery market in Canada was about \$2.7 billion in 2012, according to a [report](#) by Euromonitor International.

Nestlé Canada, Cadbury Adams Canada, owned by **Mondelez International Inc** ([NASDAQ: MDLZ](#)) (which was spun out of Kraft), and Hershey Canada led retail sales of chocolate confectionary in 2012, with a combined share of 42%, Euromonitor stated.

At 16%, Nestlé held the largest slice.

World food king

Nestlé is a worldwide leading food company that manufactures and markets food products and confectionery products, including milk, chocolate, creamer, coffee, food seasoning, bottled water, and pet foods.

When we stack Nestle up against the other two, we find that Nestle is by far the biggest of the bunch, has the best margins, and, remarkably, is the cheapest. Tabled below are several pertinent stats that illustrate this relationship.

Company Name	Sales (billions)	Net Margin	Div Yield	P/E
Nestle	\$98.9	10.8%	3.2%	19
Mondelez	\$35.1	7.9%	1.8%	30
Hershey	\$6.7	10.4%	1.9%	28

Consumer stocks have, for the most part, been much-loved darlings in the current stock market. Nestlé's stock however has performed poorly year-to-date. The stock is up just 1.6% through June 11. This compares to Hershey and Mondelez, each up 22.7% and 17.3% respectively.

All else being equal, it seems that the market isn't giving Nestlé the attention it deserves.

Foolish Takeaway

The Canadian price-fixing scandal is unlikely to have a lasting impact on any of the participants. They're a) too big globally, and b) too well entrenched in the buying habits of Canadians. If you're looking for an opportunity in this space, it's unlikely that it will come as a result of this issue. However, Nestle's valuation relative to its two peers might be all the opportunity you need.

The Motley Fool's [special FREE report](#) "**3 U.S. Stocks That Every Canadian Should Own**" profiles 3 more dominant businesses that you need to be aware of. Simply [click here](#) to download this report at no charge.

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The original version of this post was created by Fool contributor Michael Hooper.

Fool contributor Michael Hooper owns shares of Hershey. The Motley Fool has no position in any stocks mentioned at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:MDLZ (Mondelez International, Inc.)
2. NYSE:HSY (The Hershey Company)

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