



## Canada's Food Producers: Who's the Fairest of Them All?

### Description

Canada's grocery industry is clearly undergoing a revolution. First it was the **Sobey's** take down of **Safeway's** western Canadian stores. Now, **Loblaw** is joining forces with **Shoppers Drug Mart**. Both transactions took the headlines by storm, and given the market's reaction, have been smiled upon by investors.

With the front-end of the industry consolidating, what might this mean for the companies that actually produce food? With fewer, bigger players, they are going to have to adapt. Let's run through some numbers to see which of Canada's most prominent grocery suppliers might be best suited for your hard earned investment dollar.

### Free cash

Generally speaking, the collection of 4 names provided below have a sturdy record of generating free cash. The table below displays the cumulative free cash for each over the past 5 years and compares it to cumulative sales over this period. Only **Maple Leaf Foods** ([TSX:MFI](#)) has a somewhat suspect record.

	Saputo ( <a href="#">TSX:SAP</a> )	Weston's ( <a href="#">TSX:WN</a> )	High Liner Foods ( <a href="#">TSX:HLF</a> )	Maple Leaf Foods
Cash from ops	\$2,453.5	\$12,312.0	\$187.0	\$1,032.8
Cap ex	561.2	5,169.0	40.9	1,080.9
Free cash flow	1,892.3	7,143.0	146.1	-48.1

FCF Margin	6.4%	4.4%	4.2%	n/a
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Source: Capital IQ

## Balance Sheet

Given their ability to (more or less) generate free cash, we know that we're dealing with a collection of quality companies. Let's check out the respective financial positions to ensure financial risk isn't a concern. Total debt/equity for each is provided below.

Company Name	Total Debt/Equity
Saputo	75.3%
Weston's	98.2%
Maple Leaf Foods	129.0%
High Liner Foods	180.5%

Source: Capital IQ

Saputo adds another notch to its belt. Over the past five years not only did the company carry the best FCF Margin, but also has the most financial flexibility in the group.

## Valuation

Based on the figures we've looked at thus far, it stands to reason that Saputo should trade at a premium to the other names. Let's see if this holds as we compare some of the multiples at which these names trade in the following table.

Company Name	P/E LTM	P/E Fwd	P/BV	P/FCF
Saputo	19.7	15.7	4.1	26.9
Weston's	22.6	18.0	2.1	35.8

Maple Leaf Foods	20.1	16.2	2.2	n/a
High Liner Foods	79.7	9.2	2.7	4.6

Source: Capital IQ

Aside from a couple of High Liner's multiples, the group does not look cheap and relative to the other truly large-cap name in the group, Weston's, Saputo actually looks reasonably priced. Even though Saputo appears better from a free cash and balance sheet standpoint, its valuation isn't out of line.

### Foolish Takeaway

With retail consolidation occurring in Canada, supplier margins are set to be squeezed. This is another thing to like about Saputo as it has an international focus and generated just 35% of revenues here in the past quarter. Though not cheap, people need to eat, and therefore, keeping the companies that make this necessity into a reality in mind is always a prudent move for investors.

Shoppers Drug Mart is one of the 5 stocks that we've profiled in our special **FREE** report "**5 Stocks to Replace Your Canadian Index Fund**". To download this report and learn about the remaining 4, simply [click here now](#).

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*Fool contributor Iain Butler doesn't own shares in any of the companies mentioned at this time. The Motley Fool doesn't own shares in any of the companies mentioned.*

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:HLF (High Liner Foods Incorporated)
2. TSX:MFI (Maple Leaf Foods Inc.)
3. TSX:SAP (Saputo Inc.)
4. TSX:WN (George Weston Limited)

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