



Is Rogers Sugar a Sweet Deal?

Description

Many investors dream of owning a company that has a monopoly. The reason is simple, since such a company would have the ability to set its own prices, the benefit of no competition, and pretty much the ability to do whatever it wants. Unfortunately for investors, monopolies tend to get broken up by governments before they get too large.

While an investor won't ever have the opportunity to invest in a true monopoly, duopolies often exist. **Visa** and **Mastercard** process more than 80% of credit card transactions in North America. **Air Canada** and **Westjet** control the vast majority of domestic air travel in Canada. And finally, the Canadian sugar business is controlled by **Rogers Sugar** ([TSX:RSI](#)) and Redpath, which is private.

Most of the time, duopolies are protected by brand recognition, a resistance to change from their customers, and a competitive advantage, something which Warren Buffett refers to as a company's "moat." In the case of Rogers Sugar and Redpath though, there's one additional factor protecting these two combatants, and that's the government.

The Canadian government currently has tariffs in place on foreign sugar imports, excluding one notable exception, the United States. While these tariffs are low compared to other countries', they still make any foreign competition to Canadian companies unlikely.

Why the sell-off?

On the surface, Rogers Sugar seems like a steady, if unspectacular business. It buys supply from sugar beet farmers, processes the product into the various kinds of sugars, and then sells it, taking a very steady margin at the end of the process. So why has the stock fallen so far lately?

There are a few temporary issues affecting the stock. First of all, natural gas prices have increased, and that's a major input cost in its facilities. Current costs are hedged, but increased costs are coming. Also, the United States had a bumper sugar crop last year, leading to increased American exports heading across the world. Rogers has already come out and said it expects 2014 export numbers to be weaker than 2013, as it exports any product that isn't consumed domestically.

And finally, food producers are continuing to switch from traditional sugar products to high fructose corn syrup (HFCS). Rogers produces HFCS, but it doesn't enjoy margins quite as high as traditional sugar.

The bull case

Analysts responded to this bad news by almost unilaterally cutting their outlooks and price targets for the stock, sending it almost into freefall over the past fortnight. And yet, I think this might be a buying opportunity.

Rogers is never going to be a high growth stock. In fact, as diets shift to become more healthful, it may struggle to grow revenues at all. But that's OK, since you're getting something at a discount most investors are willing to pay a premium for — and that's pricing power.

Neither Rogers or Redpath are going to be aggressive on customer pricing. They're going to charge about the same, making sure they maintain their margins. And while you wait for the glut of supply to work its way out of the sugar market, you can collect an 7.8% dividend. Rogers also has a history of paying out special dividends, the most recent was in early 2013 at 5.6%.

Foolish bottom line

Like most every business, the sugar business has good times and bad times. Right now, things aren't going so well. Given enough time, it'll recover, and in the meantime investors are getting a sweet dividend to wait. It's not like we're going to stop eating cookies anytime soon.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:RSI (Rogers Sugar Inc.)

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