



Will 2014 Be the Turnaround Year for SunOpta?

Description

SunOpta ([TSX:SOY](#)) reported weak 2013 results due to a number of factors, such as weak commodity prices, a product recall, and re-organization of the business. While revenue increased 5.6% for the quarter and 8.3% for the year, EPS came in at a loss of \$0.02 per share versus +\$0.07 per share in 2012. The company pre-announced that these results would be weaker than expected, so this was not a surprise.

SunOpta's industry

Ten years ago, organic food retail sales were \$7 billion per year with a growth rate of 15-20% per year and growth rates are still going strong today. It is estimated that growth in organic foods will be in the low double-digit range per year for the next five years. And companies involved in this industry are profiting from this trend. **Hain Celestial Group** ([NASDAQ:HAIN](#)), for example, has benefitted in a big way. The stock has a one-year return of 66%, and a three-year return of 229%. The company is expecting a high single-digit revenue growth rate excluding acquisitions, and a 22-24% increase in revenue in 2014 including acquisitions.

Reorganization

SunOpta is focusing on three segments: global sourcing and supply, value-added ingredients, and consumer products. In 2013, the global sourcing segment's revenues increased 4.1% to \$124 million, the value-added ingredients segment revenue's increased 6%, and the consumer products segment's revenue increased over 11% excluding the product recall.

Catalysts for stock price

The company believes that the majority of the extra costs and charges associated with the previously discussed operational issues are behind it. In 2013, there was an additional \$600,000 in operating costs related to consulting and systems design. Some costs related to this will continue but progressively lessen in 2014.

Furthermore, management believes that the charge that was taken related to the product recall is sufficient and that this issue is behind them.

Finally, SunOpta has plans to divest of its non-core assets (SunOpta Minerals and Mascoma) in order to become a pure-play natural and organic foods company. This is something the company has been working on for some time, and the timing on this is uncertain, but the completion of a sale will be very positive for the stock. Proceeds from selling these businesses will enable the company to look at acquisitions to further grow the business. They also have a strong balance sheet which they can tap in order to help with their growth strategy.

Focus on profitability

For SunOpta employees, variable compensation is dependent on reaching margin and return on capital targets. By the end of 2015, the company is targeting an 8% EBIT margin, 10% EBITDA margin, 15% return on assets, and EPS of between \$0.80 and \$1.00. EBIT margin goals for the specific reporting segment are: global sourcing 4-5%, value-added 8-10%, and consumer products 12-14%.

Foolish bottom line

The secular growth opportunity in SunOpta's industry is still very attractive. While investors should closely monitor the progress of the company related to its operational issues, it seems that these difficulties are being resolved, and on the earnings conference call, management said that they expect 2014 to be a much better year reflecting the growth trends inherent in its business.

Analyst expectations for the company are somewhat low, understandably given the troubles SunOpta has experienced. If, however, the company delivers on its targets, earnings estimates and expectations have a big gap to close, thus driving the stock price higher.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:HAIN (The Hain Celestial Group, Inc.)
2. TSX:SOY (SunOpta Inc.)

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