



## 4 Highlights From Saputo Inc.'s Quarterly Results

### Description

**Saputo Inc.** ([TSX: SAP](#)) is one of the top 10 dairy producers in the world and operates 55 plants in Canada, the U.S., Argentina, and Australia. Its product line-up includes a variety of cheeses and milk products that are marketed under well-known brand names such as Saputo, Armstrong, Frigo, Dairyland, and Stella. The company was established in 1954 in Montreal by an Italian immigrant, Guiseppe Saputo, and became a public entity in 1997. Lino Saputo is the Chairman of the Board and his son Lino (Jr) is the CEO of the business. It recently released its Q1 2015 results. Here are four things to keep in mind.

#### 1. Profit is in line with expectations and a higher dividend

Profit for the first quarter of the 2015 fiscal year amounted to \$145 million, which was 6.3% higher than the year before. Profit per share amounted to \$0.73, or 5.7% higher than the year before. This was in line with consensus expectations — no surprises here. The quarterly dividend was increased by 13% and the company also announced a stock dividend, which has the same effect as a two-for-one stock split, effective on the 30th of September — this was a positive surprise.

The U.S. operation is now the largest contributor to company profits; aided by higher sales volumes, pricing initiatives, and the weaker Canadian dollar, it increased its EBITDA contribution by 5%. The Canadian division struggled and recorded an EBITDA decline of 2.9% despite higher sales revenue. Higher raw material and operational costs were flagged as reasons for the profit decline. The EBITDA contribution from the much smaller international division almost tripled as a result of the inclusion for the first time of the Australian Warrnambool business and a much improved performance from the Argentinian operation.

The struggling Canadian operation is in the process of being streamlined, and two operating facilities have been closed in the first quarter, with an estimated ongoing annual cost saving of \$8 million. Two more plants will also be closed in the U.S., which will result in a further \$3 million of annual cost savings.

## 2. Saputo is actively looking at more acquisitions

Saputo has been very active on the acquisition front over the recent past, having acquired Warrnambool for around A\$460 million, the Canadian dairy products producer Scotsburn for \$61 million, and the U.S. dairy producer Morningstar for U.S.\$1.45 billion over the past 18 months.

Operational synergies are expected to be derived from the Canadian and U.S. acquisitions, and the Australian operation is expected to provide a platform for increased sales into Asia and especially China. The CEO indicated on the conference call that he is considering further acquisitions on an ongoing basis.

## 3. The opportunity for food producers is attractive

The food production sector offers excellent opportunities to companies that can position themselves to benefit from the growth in global food consumption. The global population is rising rapidly and the current population is expected to expand by almost 800 million people by 2020.

Moreover, rapid urbanization and growing per capita income in developing countries is supporting the food consumption growth trend. More food must be produced to feed the growing population.

## 4. It's an attractive business with an unattractive valuation

The positive investment case for Saputo is based on its sound historical track record, competitive market position, solid balance sheet, strong operational cash flow, and positive outlook for growth, especially in the Chinese market through Warrnambool. On the negative side, one could be concerned that the company may overpay for its acquisitions in its ongoing acquisition program.

The valuation of the company is not cheap, with an enterprise value to EBITDA valuation of around 13 times and a P/E ratio of 21 times for the next 12 months. This valuation is now also at a premium compared to its peers.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

### Category

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