



## Is Saputo Inc.'s Growth Party Coming to an End?

### Description

When investors think of dairy, they think of stodgy old companies that have been around for a long time. Dairy is a steady, if unspectacular business. Folks enjoy milk, cheese, butter, and ice cream (at least I do), but most aren't increasing their consumption. If anything, our aging population is bound to drink less milk. I know I don't consume nearly as much as when I was younger.

And yet, one of Canada's best growth stories is in that "boring" sector.

The company is **Saputo Inc.** ([TSX: SAP](#)), which has been one of the best performing stocks on the TSX since 2009, rising 158%, not including its dividend. The company has been on an acquisition tear, picking up assets in Canada, the United States, Argentina, and, most recently, Australia.

Unlike a lot of other food businesses, milk and dairy are very fragmented. No one true global powerhouse has emerged. Most countries have many different players splitting market share, usually regionally. Saputo's consolidation of the Canadian market was the exception, not the norm.

Thanks to 23 acquisitions since it became public in 1997, the company has expanded its presence around the world. But is the party over? Hardly. In fact, here's why Saputo has the potential to become an even bigger player.

### The Chinese market

The company's most recent acquisition was just last year, when it bought an 88% interest Warrnambool Cheese and Butter, an Australian dairy producer, for around \$500 million. Not only does the acquisition give it a foothold in the Australian market — which is one of the world's thirstiest for milk products on a per capita basis — but it also gives the company a chance to go for a bigger prize: China.

The Chinese dairy market is kind of a mess. The average Chinese consumer consumes just a fraction of the dairy products that the average North American or European consumer does. China's domestic milk industry is improving, but huge recalls and product quality continue to be a concern for both consumers and regulators alike.

Australia gives Saputo a good base in the region, enabling it to export not only to China, but other growing markets like Southeast Asia and South Korea. Additionally, the company has identified opportunities to either export to New Zealand or acquire a producer there, further strengthening its presence in the region.

### **Other opportunities**

Besides Asia, there are many different opportunities for the company to expand operations.

In South America, management is musing about either using its Argentina-based operations to expand into Brazil, or just buying a producer in the country. It sees the same kind of potential in that market as it sees in China.

Additionally, other expansion opportunities are bound to present themselves in North America. The United States has a dairy industry that's very fragmented, giving Saputo plenty of acquisition opportunities there. Even opportunities exist in Canada, where the top three players hold 75% of the market. They aren't about to be huge acquisitions, but every bit helps.

When asked about the company's ability to finance a new buyout, CFO Louis-Philippe Carriere was confident, stating that "our current debt sits at about \$2.1 billion, and we could add another \$3 billion to \$3.5 billion." Financing doesn't appear to be a problem.

You wouldn't think it, but one of Canada's best growth stories is in the boring dairy industry. After conquering Canada, Saputo has set its target across the world. Opportunities exist for it to expand into many different markets, and it easily has the financing available to make deals. It doesn't look like the Saputo growth party is nearly over.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:SAP (Saputo Inc.)

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