



How Does George Weston Limited Stack Up in the Organic Food Race?

Description

The organic food market has brought excitement back to the food industry. We have seen evidence of this in grocery stores, as more and more shelves are dedicated to organic foods.

Ten years ago, organic food retail sales were \$7 billion per year with a growth rate of 15-20% per year. Currently, organic food retail sales growth rates are still going strong. It is estimated that growth in organic foods will be 13% per year for the next five years. This is a secular trend that is not going away.

George Weston Limited ([TSX: WN](#)), one of Canada's leading food processing and distribution companies, is working hard to increase its footprint in the organic market. The company has struggled recently as consumers have been turning to healthier choices, and in response has introduced new foods, such as a new line of gluten-free products.

Through **Loblaw Companies Limited** ([TSX: L](#)), which George Weston controls, we have also seen an increased focus on organics. For example, Loblaw introduced its President's Choice Organics line to address this segment of the food market.

In its latest results, the company reported a loss of \$208 million, or \$1.26 per share. This loss included the results of recently acquired Shoppers Drug Mart Corporation, and is also attributable to increased competition, higher commodities, and lower volumes from its fresh baked goods business, as consumers turn to healthier diet choices.

Despite these difficulties, George Weston's stock has still increased 12.6% year-to-date. The stock trades at 19 times 2013 earnings and 17 times 2014 expected earnings.

SunOpta, Inc. ([TSX: SOY](#))([NASDAQ: STKL](#)), on the other hand, continues to benefit from this trend. Year-to-date the stock has increased 38%, and based on consensus expectations, earnings are expected to increase almost 60% in 2014 to \$0.44.

Furthermore, the company is already more than halfway toward meeting this target. In the first six months of the year, EPS was \$0.23 versus a loss of \$0.15 in the same period last year. The stock trades at 52 times 2013 EPS and 33 times 2014 expected EPS.

After a difficult 2013, SunOpta is firing on all cylinders. In the latest quarter, revenue increased almost 9%, gross margins increased almost 10% to 13%, EBITDA margins of 6.7% versus 6% in the same period last year, cash from operations increased approximately 15%, and debt has come down.

SunOpta also has plans to sell 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. SunOpta also has a strong balance sheet, which it can tap in order to help with its growth strategy.

Whole Foods Market Inc. (NASDAQ: WFM), another bellwether name for the organic food trend that has done phenomenally well in the past, has seen its shares decrease over 32% year-to-date.

This stock suffered from the all too common phenomenon of overly optimistic investor expectations. At one point before its fall this year, the stock was trading at a P/E ratio of over 40 times.

While growth at the company has been stellar, especially for a supermarket chain, that multiple implies growth that is hard to sustain, again, especially for a supermarket chain.

In fact, earnings growth had been slowing since 2012. EPS increased 34.7% in 2011, 30% in 2012, 17% in 2013, and based on consensus expectations, will increase a mere 4% in 2014. So the multiple had to be taken down a notch, and now stands at 25 times.

The bottom line

The growth in the food business currently lies in organic, healthy food. George Weston has clearly lagged in this regard and this is evident in its latest results. SunOpta represents an alternative, albeit less known, option for investors looking for a Canadian food company to add to their portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:L (Loblaw Companies Limited)
2. TSX:SOY (SunOpta Inc.)
3. TSX:WN (George Weston Limited)

Category

1. Investing

Date

2025/07/22

Date Created

2014/08/20

Author

karenjennifer

default watermark

default watermark