



Love Dividend Growth? Then Saputo Inc. Should Be in Your Portfolio

Description

With the benefit of hindsight, we can go back 30 years and pick out which companies ended up being huge gainers. Some were just starting out, while others had been around for a little while but still managed to grow to the giant entities that dominate their sectors today.

Take **McDonald's Corporation** ([NYSE: MCD](#)) as an example. In 1984, McDonald's was a huge brand with restaurants located across North America, Europe, and Japan. It was starting to get into markets like the Soviet Union and China. Just about every investor on the planet was aware of McDonald's and its brand.

It's even bigger 30 years later. You can find a McDonald's in every city of consequence around the world. Even though it was a huge multinational corporation back in 1984, a combination of smart expansion, astute management, and good capital management helped it grow into an even bigger behemoth.

That's sort of where **Saputo Inc.** ([TSX: SAP](#)) is today. Since going public in 1997, the company has made dozens of acquisitions to expand its operations. First it tackled the U.S., then it took a big step towards consolidating Canada with its acquisition of Dairyworld Foods in 2001. After acquiring a cheese maker in the U.S. and a milk producer in Argentina in 2003, the company continued to make small acquisitions before buying Nielson Dairy from **George Weston Limited** in 2008.

Since then, the company made a handful of acquisitions in both Canada and the U.S. before going overseas once again to acquire an 88% stake in Warrnambool, an Australian milk and cheese producer. That purchase set the company back around \$500 million.

Getting exposure to Australia is a nice long-term move. Not only are Australians some of the largest dairy eaters per capita, but the acquisition also gives the company a base to start exporting to markets like Japan, Korea, and China. The average Chinese citizen drinks only a fraction of the milk the average Aussie consumes, thanks to high prices, low incomes, and inconsistent locally produced product.

Growth going forward

Like the early days of McDonald's, it's easy to sit back and marvel at the growth Saputo has been able to pull off since going public. I couldn't find numbers all the way back to 1997, but since 2000 the company has increased revenue from \$1.8 billion to \$9.2 billion annually, and net income from \$100 million to \$533 million.

Yet I still think the company's best days are ahead of it.

A few months ago, right after the company closed on the Warrnambool acquisition, CEO Lino Saputo Jr. identified all sorts of acquisition possibilities around the world. The company has taken a close look at markets such as New Zealand, the United States, Brazil, and even here at home.

Dairy is an extremely fragmented industry worldwide. Most countries have a few local producers that are content to share the market. This means there are a lot of opportunities for a company like Saputo to come in and have its choice of acquisition targets. In the U.S. especially, many regional producers are farmer-owned co-ops. Getting acquired is pretty much the only exit plan for the farmers who own production.

Even after the Warrnambool deal, Saputo's CFO figures the company still has \$3 billion to \$3.5 billion in borrowing power for its next acquisition. I'm not sure anything will happen in 2014, but look for the company to acquire something next year.

The dividend story

Saputo recently raised its quarterly dividend 13%, from \$0.23 per share to \$0.26. Based on the current \$65.69 share price, that's a yield of just 1.6%. That's not very exciting for somebody who wants income now.

However, that doesn't take anything away from the potential dividend growth story. Over the past five years, the company's dividend has gone from \$0.15 to \$0.26, an increase of nearly 70%. Based on current earnings, the company's payout ratio is just 38%. These two factors all but ensure that the company will continue to reward shareholders as earnings increase.

With Saputo, there are plenty of opportunities to increase earnings. If investors buy now and wait a decade, I'm guessing they'll have a pretty attractive yield on cost, and a very nice investment.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. NYSE:MCD (McDonald's Corporation)
2. TSX:SAP (Saputo Inc.)

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