Attention Investors: Saputo Inc. Shares Are on Sale

Description

Everybody likes a good bargain.

I'm a bad shopper. I often go into a store looking for groceries without a list in hand. I wander the aisles, buying whatever tickles my fancy. I'll usually get to some section I like — say, cereal — and realize I'd like to buy some. I take a look at what's available, making a particular note of what's on sale. There's always at least one brand of cereal on sale.

I look at stocks the same way. Even if the market is sitting at near record highs, there's still plenty of stocks I'll still be looking at. Pockets of value exist everywhere, it's just a matter of finding them. It's exactly like my quest for cereal. And if I can't find any? Hey, there's always toast.

Over the last couple weeks, many stocks have taken a hit as markets have been weak. For long-term investors, this is great news. The intrinsic value of most stocks hasn't gone down at all. The only thing that's changed is the price the market is willing to pay.

Take **Saputo Inc.** (TSX: SAP) as an example. On Monday, shares opened at $67.28 each. By the end of the day Thursday, they were selling at just $62.14. That's a decline of nearly 10% in not even a week.

Did any news come out that materially affected the company? Did its business plan change? Did it disappoint the market with poor earnings? As far as I can tell, the answer to all these questions is a resounding no. The stock just sold off because the rest of the market did.

Saputo is Canada's largest maker of dairy products, with operations in the U.S., Argentina, and most recently, Australia. Readers likely know that milk and cheese are staples that don't go on sale very often. I'd be willing to bet they'd even consider stocking up if a store offered 10% off dairy products.

Perhaps it's time for a similar attitude with the stock.

Saputo still has a great growth profile going forward. Company CEO Lino Saputo Jr. recently identified all sorts of markets where the company could expand — like further in North America, Brazil, or New

Zealand. Because dairy producers around the world are so fragmented, there's plenty of choice.

The company has the cash to go shopping, too. Management figures it could handle a $3 billion acquisition just by using existing credit lines. Most won't be nearly that size. The company's most recent acquisition was Australian-based Warrnambool Cheese and Butter, which only set it back a little over $500 million. There's plenty of liquidity for the next series of acquisitions.

It's likely the next acquisition will be somewhere near Asia, since the company has identified China as a major potential customer. Chinese domestic dairy is plagued with issues, and its population doesn't consume nearly as much milk and cheese than other countries, especially compared to North America and Europe. Even if China doubles its per capita dairy intake, its citizens still won't consume as much as Japanese or South Koreans. And there's a huge number of Chinese that are about to be able to afford luxuries like cheese and ice cream.

Considering the company's growth, it trades at a pretty reasonable 22x earnings. Analysts still expect it to grow earnings to $3.26 next year, which is good for a P/E ratio of just 19x. And 2016's earnings are expected to be even higher, at $3.63. Paying 22x earnings for a stock growing earnings at 10% a year is pretty reasonable.

It's obvious Saputo a solid company that has plenty of growth potential ahead of it. Investors who buy in now have the opportunity to buy shares on sale. It works for groceries, and it works for stocks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

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Date
2025/08/10
Date Created
2014/09/26
Author
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