



Why There's Gold In Asia for Saputo Inc.

Description

As I type this, I'm 35,000 feet in the air heading back to Canada after several months visiting Asia, mostly in South Korea. I spent some time in Japan as well.

While I could talk your ear off about the differences between North America and Asia, I'll focus on something that matters most – your portfolio.

You know how the breakfast cereal aisle in North American stores stretches on forever? How there are six different sizes of Corn Pops and Frosted Flakes, along with some new flavor putting a new twist on an old classic?

In South Korea at least, breakfast cereal isn't nearly that popular.

It's not that breakfast cereal doesn't exist in the country. Each supermarket I visited had approximately 10-12 flavors to choose from. And like in North America, kids are the primary targets. Cereal filled with sugar is a big seller. Like we've all seen at home, Asian kids go gaga for their favorite cereal too. But it's just not that popular with adults.

The reasoning for this is pretty simple. Breakfast cereal is only a recent phenomenon for consumers in South Korea and China. Parents didn't grow up with it, so it isn't a habit. Instead, they eat more traditional breakfast foods, like rice porridge.

Astute readers can figure out where I'm going with this. As kids in recently developed Asian countries age, they'll start drinking a lot more milk. Parents don't drink much of it because when they were growing up, milk was more of a luxury item. Now that they have disposable income, they make sure their kids get plenty of it. After all, milk is good for growing bodies.

The scope of this is huge. In China, the average person consumes less than 20% of the milk products that the average European or North American does. Per capita consumption could double and still lag far behind the Western world.

This represents a golden opportunity for Canadian milk producer **Saputo Inc.** ([TSX: SAP](#)), and its

recently acquired subsidiary in Australia.

Australia is a great dairy market. Its citizens are some of the heaviest consumers of milk, even surpassing Canada and the U.S. in per capita consumption.

But the real opportunity of Saputo's Australian foray isn't the nation itself, it's China.

As the nation's appetite for milk increases, pressure is going to be put on domestic producers to keep up. Perhaps its local farmers are up to the task, but there are a lot of potentially thirsty Chinese consumers.

The obvious solution is to import certain milk products that have a longer shelf life. Australian cheese is a natural choice, as well as all sorts of powdered milk products, which are the basis of industrial food production. It's easy to envision a scenario where Chinese farmers are pushed to the brink trying to keep up with just fluid milk demand, never mind any of the other products.

It's also predictable that a similar situation plays out in South Korea, Japan, and other nations in the area. None have the farmland to support milk consumption much higher than today's levels. Either consumer demand wanes, or imports need to be scaled up. And as discussed earlier, there's plenty of room for consumption to increase.

Saputo has mentioned a few areas where it's looking to expand. There's still further consolidation potential in Canada and the U.S., while Argentina is another market management likes. But I think it'll sick with the area and take a look at New Zealand next. It already has consumption rivalling Australia, and it further strengthens the long-term Asia demand story.

The milk industry around the world is incredibly fragmented. Over the next 20 years, there's potential for a large player to consolidate the market, making a behemoth in the process. Could Saputo become a worldwide brand? Perhaps. The potential is there. Do you really want to be sitting on the sidelines if that happens?

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

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Date

2025/08/09

Date Created

2014/12/18

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