



Saputo Inc.: One Huge Reason Why This Stock Belongs in Your Portfolio

Description

One of Canada's best growth stories is hiding right underneath your nose, and you probably don't even know it.

Saputo Inc. ([TSX:SAP](#)) is North America's largest dairy company that produces fluid milk, yogurt, and cheese. Besides its dominant position in Canada, it also has operations in the United States, Argentina, and, most recently, Australia.

Saputo is a growth-by-acquisition story. It began life as a small Quebec-based maker of cheese before expanding into the fluid milk business. It made a big splash by acquiring Dairyworld Foods back in 2000, which gave it a presence in the west. After that, it methodically bit off larger chunks, eventually going to the United States and then abroad.

Since 2010, revenue has grown from \$5.8 billion per year to nearly \$11 billion. Earnings have skyrocketed as well from \$0.92 to \$1.46. That's some decent growth, especially from a food company.

But this growth story is just beginning. In fact, Saputo has the potential to be a worldwide dairy powerhouse.

Worldwide consolidation

Because of the nature of the dairy business, it's very fragmented around the world.

Back when most dairies were formed, technology was much different than it is today. Milk was made and consumed locally. Refrigerated trucks didn't exist. Some of us are even old enough to remember the milkman showing up every morning.

Naturally, the production of milk became a very local affair. Over the years we've seen mergers, acquisitions, and consolidation in the industry, but it's still incredibly fragmented.

Plus, dairy is often heavily regulated by national governments. Angering farmers isn't a good political move just about anywhere in the world, so governments don't allow much in the way of importing dairy

products. It not only protects farmers, but also conserves manufacturing jobs.

But at the same time, these governments don't tend to mind a foreign operator owning the facilities. Farmers are still ensured a customer for the raw ingredients, and locals are still hired to staff it. Corporate taxes are still collected on profits. The only thing that really changes is where the investors are located.

The result of these policies in most countries is that several dairies exist and share the market. Some are foreign-owned, but most are local. This is exactly the opportunity Saputo can seize to get a foothold in a new market.

Management has no shortage of ideas. During a recent conference call, all sorts of options were discussed, including further expanding into the United States, Brazil, New Zealand, or doubling down in Australia. In the developing world especially, there are many more opportunities.

But perhaps the big prize is China. The Chinese consume far less milk per capita than neighboring countries like Japan or South Korea, and only consume about a 10th of what North Americans and Europeans do. They just haven't been rich enough until recently to afford the luxury.

Right now, the Chinese dairy industry has enough capacity to serve local demand. But as the population gets richer and western foods infiltrate the country more, the potential is there for consumption to grow faster than domestic supply can keep up.

So, what happens? The majority of perishable milk would continue to be made locally, while the powdered stuff used for food production would be imported. Saputo hopes its Australian operations are well positioned to fill that gap.

Look at it this way. If China's 1.2 billion people can increase their milk consumption 25%, it's the equivalent of Canada's milk consumption almost doubling. Remember, China only consumes about 20 kg per capita per year, while Canadians are closer to 200 kg. There's still a long way to go before China gets anywhere close to our consumption rates.

That's the big opportunity for Saputo, and getting a toehold in Australia helps. Look for the company to continue expanding in the region, perhaps picking New Zealand next. Once it breaks into China, that's when the fun starts for investors. It looks to be only a matter of time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

Category

1. Investing

Date

2025/09/22

Date Created

2015/04/10
Author
nelsonpsmith

default watermark

default watermark