



Is Saputo Inc. the Top Food Stock in the TSX 60 Index Today?

Description

Saputo Inc. ([TSX:SAP](#)), one of the 10-largest dairy processors in the world and the largest in Canada, announced fourth-quarter earnings results during trading hours on June 4, and its stock responded by falling over 4.5%. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or a warning sign.

Breaking down the fourth-quarter results

Here's a summary of Saputo's fourth-quarter earnings results compared with its results in the same period a year ago.

Metric	Q4 2015	Q4 2014
Adjusted Earnings Per Share	\$0.32	\$0.39
Revenue	\$2.51 billion	\$2.49 billion

Source: Saputo Inc.

Saputo's adjusted earnings per share decreased 17.9% and its revenue increased 1.1% compared with the fourth quarter of fiscal 2014. The company's steep decline in earnings per share can be attributed to its adjusted net income decreasing 16.8% to \$127.2 million, led lower by its total operating expenses increasing 3.3% to \$2.28 billion.

Its slight revenue growth can be attributed to revenues increasing 2.3% to \$1.25 billion in its U.S.A. segment and 3.2% to \$909.6 million in its Canada segment, but this growth was almost entirely offset by its revenues decreasing 7.4% to \$356.1 million in its International segment.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Average block market per pound of cheese decreased 29.2% to US\$1.542
2. Average butter market price per pound decreased 9.4% to US\$1.66

3. Average whey market price per pound decreased 26.1% to US\$0.458
4. U.S. average exchange rate to the Canadian dollar increased 12.7% to \$1.244
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased 16.5% to \$232 million
6. Adjusted EBITDA margin contracted 200 basis points to 9.2%
7. Net cash generated from operating activities increased 91.2% to \$276.49 million
8. Cash and cash equivalents increased 84.4% to \$72.57 million

Saputo also announced that it would be maintaining its quarterly dividend of \$0.13 per share, and the next payment will come on July 16 to shareholders of record at the close of business on July 6.

Should you buy Saputo's stock on the dip?

It was a fairly weak quarter for Saputo, so I think the post-earnings drop in its stock was warranted. However, I also think it has led to a great long-term buying opportunity because the stock now trades at attractive forward valuations, and because the company has shown a strong dedication to maximizing shareholder value through the payment of dividends.

First, Saputo's stock trades at just 21.1 times fiscal 2015's estimated earnings per share of \$1.54 and only 18.9 times fiscal 2016's estimated earnings per share of \$1.72, both of which are inexpensive compared with its long-term growth potential.

Second, Saputo pays an annual dividend of \$0.52 per share, which gives its stock a 1.6% yield at today's levels. A 1.6% yield may not seem impressive at first, but it is very important to note that the company has increased its annual dividend payment for 16 consecutive years, making it one of the top dividend-growth plays in the food industry today.

With all of the information provided above in mind, I think Saputo is the top food stock in the TSX 60 Index today. Long-term investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to positions.

CATEGORY

1. Dividend Stocks
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POST TAG

1. Editor's Choice

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1. TSX:SAP (Saputo Inc.)

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