



Why Dairy Giant Saputo Inc. Isn't Worried About a Trans-Pacific Trade Deal

Description

Canadian dairy farmers have been fretting about the proposed Trans-Pacific Partnership trade deal, worried that they might have to give up their protected supply management system if the 12-country deal goes through. But Canada's largest dairy processor **Saputo Inc.** ([TSX:SAP](#)) has no such concerns.

Chief Executive Lino Saputo Jr. told shareholders his company will be able to adapt to any trade agreement because it has operations in Canada and the United States as well as in other countries.

Saputo Jr. admits the Quebec-based company has thrived under the current system, but noted a deal could open up key north-south trade routes and will ultimately be positive for the cheese and milk producer. The executive added on a conference call that his company is well positioned to capitalize on changes the deal would bring, and said long-term profitability would not be negatively affected.

Saputo's shares jumped 5% on Tuesday, despite modestly weaker earnings and lower revenues in the first quarter of fiscal 2016. Saputo Jr.'s comments on the trade deal helped boost the stock, as did the company's decision to bump up its quarterly dividend to 13.5 cents a share from 13 cents previously.

Saputo's net income for the three months ended June 30 was \$136.4 million, or \$0.34 per share, down from \$145.3 million, or \$0.36, at the same time last year. Revenue fell 2% to \$2.56 billion.

The profit was in line with analyst estimates of \$0.34 cents per share, but revenue was slightly below projections.

In its outlook for 2016, Saputo said the competitive market that existed in fiscal 2015 is likely to continue and remains a challenge for the company. Additionally, dairy-ingredient markets have continued to decline and are expected to remain low during fiscal 2016.

In order to mitigate downward margin pressures, Saputo's Canadian dairy division will seek to optimize its operating platform and continue to evaluate its cost structures.

Along with those issues, Saputo's stock has hit a bump of late, falling 10% so far this year. Still, Foolish investors should listen to Saputo Jr. and take a closer look at the stock and its long-term prospects,

which look largely positive despite some short-term challenges.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

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Date

2025/08/16

Date Created

2015/08/05

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