



## Saputo Inc.: Is Now the Prime Time to Buy?

### Description

**Saputo Inc.** ([TSX:SAP](#)), the largest dairy processor in Canada, announced first-quarter earnings results on the morning of August 4, and its stock has responded by rising over 5% in the trading sessions since. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

### Lower dairy prices lead to year-over-year declines

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

Metric	Q1 2016	Q1 2015
Adjusted Earnings Per Share	\$0.35	\$0.37
Revenue	\$2.56 billion	\$2.62 billion

*Source: Saputo Inc.*

Saputo's adjusted earnings per share decreased 5.4% and its revenue decreased 2.2% compared with the first quarter of fiscal 2015. The company noted that these weak results could be attributed to the continued decline in the market price of its product offerings over the last year, including the average block market per pound of cheese decreasing 25.1% to US\$1.62, the average butter market per pound decreasing 11.6% to US\$1.88, and the average whey market per pound decreasing 34.8% to US\$0.43.

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

1. Adjusted net income decreased 5.7% to \$137 million
2. Revenues increased 0.9% to \$1.30 billion in its U.S.A segment
3. Revenues decreased 3.3% to \$917.54 million in its Canada segment
4. Revenues decreased 9.5% to \$343.58 million in its international segment
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased

3.7% to \$258.9 million

6. Adjusted EBITDA margin contracted 20 basis points to 10.1%
7. Net cash generated from operating activities increased 22.6% to \$134.61 million
8. Ended the quarter with \$176.5 million in cash and cash equivalents, an increase of 143.2% from the beginning of the quarter

On a positive note, Saputo announced a 3.8% increase to its quarterly dividend to \$0.135 per share, and the next payment will come on September 14 to common shareholders of record at the close of business on September 3.

### **Should you buy Saputo today?**

The second quarter was fairly disappointing for Saputo, but it made up for the weak financial performance by raising its dividend, so I think its stock reacted correctly by moving higher. I also think this could be the start of a sustained rally higher because the stock trades at very inexpensive valuations, and because the company has shown a strong dedication to maximizing shareholder value through the payment of dividends, which will continue to attract investors.

First, Saputo's stock trades at just 20.9 times fiscal 2016's estimated earnings per share of \$1.52 and only 18.9 times fiscal 2017's estimated earnings per share of \$1.68, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.7 and the industry average multiple of 25.7.

Second, Saputo now pays an annual dividend of \$0.54 per share, which gives its stock a 1.7% yield at today's levels. A 1.7% yield may not impress you at first, but it is very important to note that the company has increased its annual dividend payment for 15 consecutive years, making it one of the top dividend-growth plays in the market today, and if it maintains its current rate for the rest of 2015 and all of 2016, this streak will reach 17.

With all of the information provided above in mind, I think Saputo represents one of the best value and dividend-growth plays in the food products industry today. Foolish investors should strongly consider beginning to scale in to positions over the next couple of trading sessions.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:SAP (Saputo Inc.)

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