Buy Saputo Inc. as the Price Will Only Go up

Description

Saputo Inc. (TSX:SAP) is one of the largest dairy producers in the country, with an assortment of dairy products including milk, cheese, extended life milk and cream products, and dairy ingredients.

Saputo has a presence in over 40 countries with a huge brand portfolio of over 20 brands, and upwards of 11,000 employees.

Recently the stock took a bit of a drop, raising the question of whether or not Saputo is still a good buy. To answer the question, let's take a look at how Saputo is doing at the moment.

How is Saputo doing?

Saputo is currently trading just over $30, edging closer to the 52-week low of $28.78. Year-to-date, the stock is down by over 11%, and extending the time period out over a full year, the decrease only improves slightly to approximately -7%. Longer term, the stock price is showing a respectable increase of 90%.

Saputo pays a quarterly dividend, and the last one was for $0.13 per share issued on July 16. This is up slightly as the company raised the annual dividend to $0.54 per share. Income from this dividend will not be reason enough to jump on board, but the dividend has been raised over the past 15 years, and is likely to continue to do so.

The increase in the dividend was likely introduced to offset what was an otherwise disappointing quarter; revenues in the international segment dropped nearly 10%, and by over 3% in Canada.

Even with the decrease in revenue, profits came in as estimated by analysts at $0.34 per share, causing analysts to maintain a buy rating on the company with price targets raised up to $37.

Saputo and the Trans-Pacific Partnership

The Trans-Pacific Partnership is a trade agreement that could spell a significant overhaul or removal of Canada's dairy supply management system. The existing system works on three core policies: price setting, supply control, and protection from foreign competition.

In terms of impact on the Canadian dairy industry, the impact could be immense—6,000 farms and nearly 24,000 direct jobs scattered across the country could be impacted. A recent report by the *Boston Consulting Group* noted that as much as 40% of Canada's milk production could be at risk as a result of the partnership.

These are real concerns to Saputo. During the company's annual meeting, Chief Executive Lino Saputo Jr. reassured shareholders that the company would be able to weather any changes introduced, as Saputo has large operations not only on both sides of the Canada-U.S. border, but in other countries as well.

Should the partnership deal pass, milk prices could decrease for consumers, spurring additional north-south trade. Saputo's large distribution network could be at an advantage in such a scenario.

Why you should buy Saputo

Despite the recent dip in price, in my opinion, Saputo remains a solid company that shows great potential over the long term. Management is fully aware of the Trans-Pacific Partnership and its potential impact. More importantly, Saputo knows how to respond to any changes it may bring forth to Saputo's advantage.

Rising dividends, steady profits, and a strong international brand portfolio all reinforce that this is a company that will continue to grow. The stock being down recently should be seen as an opportunity that investors will want to take advantage of.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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