



Saputo Inc. Is Poised to Become a Dividend-Growth Superstar

Description

When looking for dividend-growth stocks, Canadian investors often focus on the same names over and over again. Companies like **Telus**, **Fortis**, **TD Bank**, or **Suncor** are analyzed again and again as investors stick with companies that offer a good current yield, a proven history of dividend growth, and name recognition. If one of those stocks goes down, at least investors have solace in knowing they're not alone in their pain.

But is that really the best way to go about it? I'm not sure it is. Think about it this way. Which stock has the better dividend-growth potential, all things being equal: a company like Telus that pays out more than 70% of its net earnings in dividends, or one that pays out just 37% of its earnings?

For long-term investors without the need to spend those dividends, there's a pretty easy case to be made for going with the company with greater dividend-growth potential, especially if that potential is coupled with revenue and earnings growth.

I think that exact situation is presenting itself with **Saputo Inc.** ([TSX:SAP](#)). Here's why dividend-growth investors should be taking notice right now.

Growth potential

Throughout its history, Saputo has been a growth-by-acquisition story. It started out consolidating the milk industry in Canada, then it moved onto the United States and made a few acquisitions there. Finally, it expanded into Argentina and, mostly recently, Australia.

There's potential for much more growth. Fluid milk is one of the most fragmented industries in the world. It seems like every country on the planet has a few local producers that dominate local market share. As one of the world's only aggressively expanding dairy companies, Saputo will inevitably stumble upon acquisition opportunities. Management has said they see potential in the U.S., Brazil, and New Zealand, among other countries.

One area the company is particularly excited about is China. As the nation's 1.2 billion consumers continue to get more disposable income, they'll look to spend it on luxuries they couldn't afford before.

Among the things they'll buy are things like cheese, ice cream, and packaged foods containing milk. Saputo is positioned to capture some of that market by exporting raw ingredients to China from its Australian subsidiary.

Attractive entry point

Throughout the years, there's been one big issue with investing in Saputo. The stock traded at an elevated P/E ratio because of its growth profile.

This has changed, at least temporarily. The company is dealing with lower milk prices, which has led competitors to start price wars in an attempt to get market share. I've seen plenty of sales for things like cheese and yogurt this summer at the grocery store.

Profits are down, albeit only slightly. This is giving investors a chance to buy Saputo today at a price-to-earnings ratio of about 20, which is historically cheap.

Dividend growth

Saputo has shown investors it's serious about dividend growth for its entire history as a publicly traded company, dating back to the late 1990s.

Over the last decade, dividend growth has been especially robust. In 2005 Saputo paid out just \$0.17 per share in dividends for the year. In 2015 that number is projected to be \$0.53 per share. That's a growth rate of 12% annually.

Where investors should get really excited is in the potential for more dividend growth. Saputo only pays out a little more than a third of earnings in dividends. That means that even if Saputo can't aggressively grow its earnings, it can still give investors an annual raise because it has that wiggle room.

And if Saputo can continue to increase the bottom line, the potential dividend growth on this stock will easily be enough to make up for its somewhat lackluster 1.8% current yield.

Saputo might not be a great choice for somebody who needs to maximize their yield now, but for somebody with a long-term mindset, it sure looks poised to deliver nice dividend growth for the foreseeable future.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

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Author
nelsonpsmith

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