



## Saputo Inc.'s Q3 Sales Rise Despite Low Dairy Prices: Is it a Long-Term Buy?

### Description

**Saputo Inc.** ([TSX:SAP](#)), the largest dairy processor in Canada and one of the 10 largest in the world, announced second-quarter earnings results before the market opened on November 5, and its stock has responded by making a slight move to the downside in the trading sessions since.

The stock has now fallen about 10% year-to-date and sits more than 16% below its 52-week high of \$37.58 reached back in February, so let's take a closer look at the quarterly results and the stock's fundamentals to determine if we should be long-term buyers today.

### A quarter of mixed growth fails to impress the market

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

Metric	Q2 2016	Q2 2015
Earnings Per Share	\$0.38	\$0.39
Revenue	\$2.79 billion	\$2.70 billion

Source: Saputo Inc.

Saputo's adjusted earnings per share decreased 2.6% and its revenue increased 3.4% compared with the second quarter of fiscal 2015. Its slight decline in earnings per share can be attributed to its adjusted net income decreasing 3.9% to \$149.7 million, led lower by its total operating costs increasing 3.8% to \$2.51 billion.

Its slight increase in revenue can be attributed to two primary factors. First, the company's sales volumes increased in all three of its major segments. Second, the fluctuation of the Canadian dollar versus foreign currencies increased its revenues by approximately \$292 million, including \$272 million in its U.S.A. segment and \$19 million in its International segment.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago

period:

1. Revenues increased 8.5% to \$1.46 billion in its U.S.A. segment
2. Revenues decreased 1.4% to \$958.5 million in its Canada segment, primarily due to the disposal of its Bakery Division in the fourth quarter of fiscal 2015
3. Revenues decreased 2.6% to \$374.4 million in its International segment
4. Average block market per pound of cheese decreased 20.1% to US\$1.687
5. Average butter market price per pound decreased 16.2% to US\$2.243
6. Average whey market price per pound decreased 52.7% to US\$0.309
7. U.S. average exchange rate to the Canadian dollar increased 20.1% to \$1.309
8. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 1.8% to \$281.7 million
9. Net cash generated from operating activities decreased 4.2% to \$192.69 million
10. Ended the quarter with \$219.44 million in cash and cash equivalents, an increase of 24.3% from the beginning of the quarter

Saputo also announced that it will be maintaining its quarterly dividend of \$0.135 per share, and the next payment will come on December 11 to shareholders of record at the close of business on December 1.

### **What should you do with Saputo's stock today?**

It was a decent quarter overall for Saputo, but it was far from impressive, so I think the decline in its stock is simply a result of overall weakness in the market. With this being said, I think the stock represents a very attractive long-term investment opportunity today, because it trades at very inexpensive valuations and because it is one of the market's top dividend-growth plays.

First, Saputo's stock now trades at just 20.9 times fiscal 2016's estimated earnings per share of \$1.50 and only 18.4 times fiscal 2017's estimated earnings per share of \$1.71, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 37.7 and its industry average multiple of 31.6.

I think the company's stock could consistently trade at a fair multiple of at least 25, which would place its shares upwards of \$42 by the conclusion of fiscal 2017, representing upside of more than 33% from current levels.

Second, Saputo pays an annual dividend of \$0.54 per share, giving its stock a 1.7% yield. This 1.7% yield may not seem like much at first, but it is very important for investors to note that the company has raised its dividend for 16 consecutive years, and its increased amount of cash generated from operating activities, including 5.2% year-over-year growth to \$327.31 million in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

With all of the information provided above in mind, I think Saputo is one of the best investment options in the food industry today. All Foolish investors should take a closer look and consider beginning to scale in to long-term positions.

### **CATEGORY**

1. Investing

## TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

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### Author

jsolitro

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