Maple Leaf Foods Inc. Doesn't Care About Falling Markets

Description

With a market cap of only $3 billion, most investors aren't paying attention to **Maple Leaf Foods Inc.** (TSX:MFI). The company's shareholders most likely don't care if people aren't interested as they've experienced a near 100% return over the past five years compared to a 7% decline for the TSX. In fact, Maple Leaf Foods stock has outperformed the TSX every year since 2011.

Can investors expect this outperformance to continue?

A six-year turnaround

In 2010 Maple Leaf management decided to revolutionize its failing consumer foods company. Profit margins were negative and sales were flagging due to outdated manufacturing facilities, a bloated workforce, and onerous maintenance costs. The turnaround called for shedding inefficient business lines, investing over $800 million in new manufacturing plants, and nearly $100 million in new technologies that would improve throughput times and lower costs.

Where many have failed, Maple Leaf's management was able to pull off one of the more impressive Canadian turnarounds this decade.

As late as 2013, Maple Leaf was still losing money nearly every quarter. By the following year investors finally started reaping the rewards. EBITDA margins hit positive territory in 2014, continuing to climb to today's 7% level. The biggest contributor to improved results has been the company's focus to increase cost efficiencies.

For example, management consolidated 11 prepared meats manufacturing sites into just four. It also brought its distribution centres down from 19 to two. A full conversion over to SAP software has integrated its entire supply chain and manufacturing process, which should sustain most of the efficiency gains. With a state-of-the art, low cost manufacturing and distribution network, Maple Leaf is almost unrecognizable from the company it was just five years ago.

Buyback offers another value opportunity

With the company finally turning a profit and throwing off positive cash flow, management recently doubled the dividend, resulting in a 1.4% yield. While that may not seem too enticing, Maple Leaf has decided that an even better use of cash would be to buy back stock.

In 2015 it invested $175 million to buy back 7.8 million shares. Now debt free with cash on hand of $307 million, Maple Leaf should have no problem continuing to buy back undervalued shares until its turnaround is complete.

Right now, shares trade at roughly 14 times trailing EBITDA. For 2016 the company targets EBITDA margins of 10%. If that's achieved, shares would trade at only 10 times EBITDA, which looks pretty cheap for a company just starting to benefit from a long-term turnaround effort. Based on management's proven history of success, any share repurchases will likely be very valuable to stockholders.

Maple Leaf stock has rewarded investors who've trusted in the company's vision for the future. The next few years look to be more of the same.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MFI (Maple Leaf Foods Inc.)

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