



## Is SunOpta Inc. the Best Way to Play the Organic Food Trend?

### Description

The organic food market has brought excitement back to the food industry. We have seen evidence of this in the grocery stores as more and more shelves are dedicated to organic foods.

A little over 10 years ago, organic food retail sales were \$7 billion per year with a growth rate of 15-20% per year. In 2014 sales were close to \$36 billion, representing roughly 5% of total U.S. food sales. Currently, organic food retail sales growth rates are still going strong. It is estimated that growth in organic foods will be between 11% and 13% per year for the next five years. This is a secular trend that does not seem to be going away.

As we know, this has not gone unrecognized in the stock market, and we have seen exceptional returns on organic food companies in the last few years. Given my belief that this trend is just beginning, I am following **SunOpta Inc.** ([TSX:SOY](#)) closely.

SunOpta is a vertically integrated organic food company that sources raw materials such as soy, corn, vegetables, and fruit, transforms them into value-added ingredients for food manufacturers, and produces consumer-packaged products. The risk in its business model is relatively low as it is a vertically integrated company and does not own farms. SunOpta sells its products to a large number of retailers, such as **Wal-Mart**, **Costco**, **Whole Foods**, and consumer goods companies, such as Kraft, Cargill, Gerber.

The problem with SunOpta is that in spite of being in a great industry that is experiencing strong secular growth, the company has struggled to capitalize financially; it can be characterized as failing to meet expectations for a few years now. Results have been disappointing, and management has struggled to increase margins in a sustainable way.

In fact, in the latest results, the gross margin for the fourth quarter was 8% versus 9.4% last year and 9.6% for the full year versus 11% last year.

But I still want to believe in the story.

The company should be able to get on track and profit from the strong growth in its industry. And 2015

was a year of transformation. It completed three acquisitions: Sunrise Growers, which provides scale and market leadership in the private label frozen fruit category, Cirtusource and Niagara Natural, and the \$6.2 million divestiture of Opta Minerals, which will close in the second quarter of 2016.

I also like the fact that the management incentive program has been reset to be based on margin improvement and debt-reduction targets.

In closing, with the stock down over 13% yesterday, this may be a good opportunity for investors to get into this name, which provides exposure to the organic food industry and may be finally turning itself around.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:SOY (SunOpta Inc.)

## **Category**

1. Investing

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