Saputo Inc.: This Future Dividend-Growth Machine Is Just Getting Started

Description

There's one big problem with limiting your investing dollars to Canada's largest companies: for the most part, they're all in the seventh or eighth inning of their growth story.

Take the telecom sector, one owned by many investors because of the predictable cash flows and generous dividends it provides. Everyone in Canada who wants a smartphone already has one; it's the same thing with high-speed Internet. Thus, the sector really only has three avenues of growth. Companies can steal customers from rivals, they can raise prices, or slowly gain subscribers as the population grows.

For many investors–especially young ones–this type of growth simply isn't enough. These investors crave a story that has the potential to really explode over the next decade or two, yet is still large enough they can trust the company. Oh, and it has to pay consistently increasing dividends, too.

Saputo Inc. (TSX:SAP) checks off all three boxes. Here's why it's poised to be a real dividend-growth superstar for years to come.

Limitless potential

Over the last two decades, Saputo has been a growth-by-acquisition story.

It started out expanding in Canada, acquiring cheese- and milk-processing competitors. By 2001 it was the largest milk producer in the country.

From there, it moved onto the United States. Saputo has made several acquisitions in the country since 2002, focusing on the mid-west and west coast areas. It has grown the U.S. business to the point where it does more than $1.5 billion in revenue per quarter in the country. The U.S. business has benefited from the weaker Canadian dollar.

The company has major international operations, too. In 2003 it acquired a dairy in Argentina, and in 2014 it bought 88% of Warrnambool Cheese and Butter Factory in Australia for more than $500 million. Warrnambool then made a small bolt-on acquisition for Woolwich, a maker of goat cheese in Australia.

Saputo is a true worldwide player, but this could only be the beginning. The company could continue to expand in the United States, taking advantage of the fragmented market there. Internationally, there are dozens of opportunities everywhere from Europe to South America. But the real prize is in Asia, a continent where analysts estimate that per-capita dairy consumption will soar over the next few decades.

Saputo has the balance sheet strength to make further acquisitions. It has approximately $1.6 billion in net debt, a reasonable number for a company with a market cap north of $16 billion. It has more than $300 million in cash and open credit lines for $1 billion more. Management is also actively on the prowl for acquisition opportunities.

Like dividend growth?

Saputo has done a terrific job growing its dividend as a publicly traded company.

According to Google Finance, Saputo has been paying dividends since 1999, when it paid a 0.4 cent quarterly payout per share. These days the quarterly payout is $0.135 per quarter. That’s remarkable growth of 23% annually.

Saputo still has plenty of potential to keep growing the payout. Although I’m not sure 23% annualized growth should be the expectation going forward, Saputo still only has a payout ratio of 34.8% of trailing earnings. And remember, those earnings were weak because of overcapacity issues in the Canadian dairy market.

Analysts are more bullish for the company’s fiscal 2017, which starts on April 1. Consensus among analysts is that the company will earn $1.79 per share, putting the payout ratio at just 30%.

Look at it this way: if Saputo doesn’t grow earnings a penny over the next decade and still grows its dividend by 10% a year, the company will pay $1.40 per share in annual dividends. That’s a payout ratio of 78% for what we can pretty accurately call a worst-case scenario.

Since 2011 Saputo has grown its earnings by approximately 8% a year. I believe it can pretty easily continue doing that over the long term. Combine that with the eventual consolidation of the dairy business worldwide and the company’s dividend-growth potential, and it adds up to an investment many investors should buy and hold for a very long time.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/09/11
Date Created
2016/03/25
Author
nelsonpsmith