



Maple Leaf Foods Inc.: The Best Stock You've Never Heard of

Description

Maple Leaf Foods Inc. ([TSX:MFI](#)) stock has outperformed the TSX every year since 2011. Over the past five years, shareholders have experienced a 151.5% gain compared to a near 0% return for the TSX. On Wednesday shares popped another 7.5% after the company crushed its quarterly earnings report.

The stock has run quite a bit, but the story is just beginning.

[generate_fund_chart](#)

Long-term opportunities

Maple Leaf is the largest protein supplier in Canada, producing processed foods made of pork, poultry, beef, and more. Headquartered in Toronto, it has operations in Canada, the U.S., Mexico, the U.K., and Asia.

Back in 2010, profit margins were negative and sales were flagging due to outdated manufacturing facilities, a bloated workforce, and onerous maintenance costs. In a move that some believed was too aggressive, Maple Leaf's management team initiated a turnaround that shed inefficient business lines, invested over \$800 million in new manufacturing plants, and pumped nearly \$100 million into 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 10.2% 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.

“They have definitely turned the corner,” says Bob Gibson, an analyst at Octagon Capital. “Everything is in place: They have shut down the old plants, they have got the new plant and they have to get it running smoothly and efficiently. There is significantly less cost, the machines are faster, there is less labour, and it’s a lot cheaper to manufacture the various products.”

default watermark

Image Source: Maple Leaf Foods Corporate Presentation

default watermark

Image not found or type unknown

Image Source: Maple Leaf Foods Corporate Presentation

Profits continue to soar

In its latest quarterly report, Maple Leaf posted net earnings of \$42.3 million compared with a loss of \$2.9 million in the same quarter of last year. By 2017, analysts expect the company to earn \$1.38 a share, implying the stock trades at 21 times forward earnings.

While shares certainly aren't cheap, the company's impressive historical performance suggests that its management team can continue to find more room to boost long-term shareholder value. Maple Leaf's CEO is also the largest shareholder, so he is highly incentivized.

In 2015 it invested \$195 million to buy back 8.7 million shares, all while paying a 1.4% dividend. Now debt free with cash on hand of \$291 million, Maple Leaf should have no problem continuing to buy back shares and boost its dividend.

While the turnaround is technically complete, investors should be kept happy in future years as Maple Leaf starts to return bigger chunks of capital to shareholders.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Date

2025/08/26

Date Created

2016/05/04

Author

rvanzo

default watermark