2 Food Stocks Moving Higher on Strong Q2 Results

Description

Earnings season is here, and **Maple Leaf Foods Inc.** (TSX:MFI) and **George Weston Limited** (TSX:WN) have been two of the food industry's winners as a result of their strong financial performances. Let's take a closer look at each company, their quarterly results, and their fundamentals to determine if we should buy one of them today.

Maple Leaf Foods Inc.

Maple Leaf Foods Inc. is Canada's leading consumer packaged-meats company, and it's the company behind brands such as Maple Leaf, Schneiders, Maple Leaf Prime, Swift, Larsen, and Mitchell's. It has operations across Canada and exports to more than 20 global markets, including the United States.

Before the market opened on Thursday, July 28, Maple Leaf reported very strong second-quarter earnings results. Here's a quick breakdown of five of the most notable statistics from the report compared with its results in the same period a year ago:

1. Revenue increased 4.1% to $854.65 million
2. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 79.4% to $87.88 million
3. Adjusted operating earnings increased 177.5% to $60.47 million
4. Adjusted earnings per share increased 146.2% to $0.32
5. Free cash flow increased 18.7% to $36.23 million

It was a fantastic quarter overall for Maple Leaf, so its stock responded by rising over 4% in Thursday's trading session. However, it has given up the majority of these gains today, as it's currently down about 3% in early trading.

With all of this being said, I think Maple Leaf's stock represents a very attractive long-term investment opportunity for two reasons in particular.

First, it's undervalued.

Maple Leaf's stock currently trades at just 23.5 times fiscal 2016's estimated earnings per share of $1.26 and only 20.7 times fiscal 2017's estimated earnings per share of $1.43, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 25. With its five-year average multiple and the fact that it's growing its earnings at a such a high rate in mind, I think investors should be willing to pay up to 25 times next year's earnings estimates for Maple Leaf's stock.

Second, it's a dividend-growth play.

Maple Leaf pays a quarterly dividend of $0.09 per share, or $0.36 per share on an annualized basis, which gives its stock a yield of about 1.2%. A 1.2% yield is far from high, but it's important to note that its 12.5% dividend hike in March has it on pace for 2016 to mark the second consecutive year in which it has raised its annual dividend payment, and I think its very strong generation of free cash flow, including $61.4 million in the first half of 2016 compared with a cash use of $30.5 million in the year-ago period, could allow this streak to continue for the next several years.

George Weston Limited

George Weston Limited (TSX:WN) is Canada's largest food processor and distributor through its two operating segments, Weston Foods and Loblaw. Its Weston Foods segment is a leading fresh and frozen baking company in Canada and is engaged in frozen baking and biscuit manufacturing in the United States. Its Loblaw segment, which is operated by **Loblaw Companies Limited** and its subsidiaries, is Canada's largest food distributor and one of its leading providers of drugstore, general merchandise, and financial products and services.

Before the market opened this morning, George Weston reported strong second-quarter earnings results. Here's a quick breakdown of five of the most notable statistics from the report compared with its results in the same period a year ago:

1. Revenue increased 2.1% to $11.08 billion
2. Adjusted EBITDA increased 7.5% to $981 million
3. Adjusted net earnings increased 17.7% to $200 million
4. Adjusted earnings per share increased 18.2% to $1.56
5. Free cash flow decreased 35.9% to $394 million

It was a great quarter overall for George Weston, so its stock has responded by making a slight move higher in early trading.

With all of this being said, I think George Weston's stock represents a very attractive long-term investment opportunity for reasons similar to that of Maple Leaf Foods.

First, it's undervalued.

George Weston's stock currently trades at just 18.2 times fiscal 2016's estimated earnings per share of $6.42 and only 16.5 times fiscal 2017's estimated earnings per share of $7.10, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 39.5. These multiples are also inexpensive given its estimated 12.9% long-term earnings-growth rate. With these statistics in mind, I think investors should be willing to pay up to 20 times this year's earnings estimates for George

Weston’s stock.

Second, it’s one of the best dividend-growth plays in the industry.

George Weston pays a quarterly dividend of $0.44 per share, or $1.76 per share on an annualized basis, which gives its stock a yield of about 1.5%. A 1.5% yield is not high by any means, but it’s important to note that its 3.5% dividend hike in May has it on pace for 2016 to mark the fifth consecutive year in which it has raised its annual dividend payment, and I think its very strong growth of free cash flow, including its 26.3% year-over-year increase to $879 million in the first half of 2016, could allow this streak to continue for the foreseeable future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MFI (Maple Leaf Foods Inc.)
2. TSX:WN (George Weston Limited)

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