



## Saputo Inc.: This Dividend-Growth Story Is Just Beginning

### Description

Many dividend investors follow a similar line of thinking.

They're looking for companies with a combination of a few different factors, including a decent current yield, a sustainable payout ratio, and, perhaps most importantly, a company with years of history growing its dividend on a consistent basis.

Those are all good things to look for. The problem is that retirees looking for current income today tend to avoid companies with a low yield but have the potential to really increase their dividends in the future. For them, a bird in the hand is worth more than two in the bush.

But I really think younger folks should take a different approach. By buying great companies with huge dividend-growth potential today and holding them for a long time, they can get the benefits of a company's growth period while in the accumulation phase of retirement, and get the benefits of a mature dividend payer when it comes to the distribution phase. It's a perfect win-win situation.

I think **Saputo Inc.** ([TSX:SAP](#)) is poised to be such a stock. Here's why.

### Growth potential

Even after expanding its cheese and milk empire out of Canada and into the United States, Argentina, Europe, and most recently, Australia, Saputo still has plenty of growth potential.

Dairy has traditionally been a very fragmented market across the world with most countries being dominated by local producers. After all, it's difficult to ship liquid milk long distances. This has opened up a massive opportunity for a company like Saputo.

Management has identified dozens of potential acquisition targets, including companies in the United States, Brazil, Australia, and New Zealand, and others they're keeping a little closer to the vest.

But the big prize is China. Currently, citizens of the world's most populous nation consume just a fraction of milk products that we in North America or Europe enjoy. There are a few reasons for this,

including less disposable income and a diet that's traditionally lacking in dairy products.

As China gets richer, its population will consume more dairy. Breakfast cereal is beginning to catch on there, and so are things like cheeseburgers and ice cream. These trends combined with the sheer force of 1.4 billion people are enough to make a milk producer practically salivate.

At this point, Saputo is limited to exporting dried milk products from its Australian operations to China. I wouldn't be surprised if its next move is to try to gain some sort of foothold in China—or at least Asia.

## **The dividend**

Over the last year Saputo has paid quarterly dividends of \$0.135 per share. It recently announced its payout would increase more than 10% to \$0.15 per share on a quarterly basis.

Saputo has been a dividend-growth machine for more than a decade now. From 2006 to 2016 the company increased its split-adjusted quarterly dividend from \$0.05 per share to \$0.15. That's an increase of just under 12% annually. That's a nice raise.

But perhaps dividend growth at the company is just getting started. Over the last 12 months Saputo earned \$1.61 per share. Even at its new dividend rate of \$0.60 per share annually, that's only a payout ratio of just 37%.

Analysts estimate Saputo will earn \$1.80 for its fiscal 2017 and \$2.03 for its fiscal 2018. That puts the payout ratio on a forward basis at just 33% for 2017 and even less for 2018.

Or, to put it another way, Saputo can raise its dividend by 10% annually for a decade—which gets it to a payout of \$1.56 per share—and it would still have a payout ratio under 100% even if it didn't grow earnings by a nickel.

And as you can see by the company's earnings expectations, analysts expect earnings growth of more than 10% per year.

Saputo gives investors the opportunity to invest for growth now and potentially lock in a great yield on cost come retirement time. For folks with a couple of decades of investing ahead of them, it doesn't get much better than that.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. TSX:SAP (Saputo Inc.)

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