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

Description

Even after outperforming the TSX every year since 2011, **Maple Leaf Foods Inc.** (TSX:MFI) is still an extremely under-followed stock. On average, only about $5 million worth of shares trade on the market each day. That's a paltry number considering the company is worth close to $4 billion.

So far this year, Maple Leaf Foods has put together another market-beating performance. Year-to-date, company shares are up 23.4% versus a market return of just 13.8%. But still, most investors are unaware of Maple Foods or the strong tailwinds it has behind it.

Here's what you need to know.

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This is a story that took years to play out

With operations in Canada, the U.S., Mexico, the U.K., and Asia, Maple Leaf is one of the market's largest protein suppliers, producing processed foods made of pork, poultry, beef, and more. When processed meat prices started to decline, however, both profit margins and sales growth turned negative. In 2010 the company engaged in a bold turnaround attempt.

Here's what happened.

For years Maple Leaf had been plagued by outdated manufacturing facilities, a bloated workforce, and onerous maintenance costs. The turnaround attempt effectively 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.

The change in business strategy took years to pull off. As late as 2013, Maple Leaf was still losing money nearly every quarter. But by 2014, EBITDA margins turned positive, continuing to climb to today's 10.3% level. In fact, EBITDA margins have increased *every* quarter since mid-2014. The company's ultimate target was to go from negative EBITDA margins to 10%. Management has clearly proven its ability to follow through on long-term goals.

"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."

Image Source: Maple Leaf Foods Inc. Second Quarter 2016 Earnings Presentation

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Is the story over?

Many of the company's improvements won't happen again. 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. And while vast improvements have been made, it looks like the rate of growth may slow considerably. Management's ultimate target was to hit 10% EBITDA margins. Now at 10.3%, it appears as if margin expansion is running out of steam.

Now trading at 32 times earnings, it looks like the stock has gotten a bit ahead of itself. If shares pull back, however, Maple Leaf foods has one of the best long-term management teams on the TSX.

CATEGORY

1. Investing

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

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rvanzo