



Investors: 3 Reasons to Load Up on Saputo Inc.

Description

Many investors love food stocks for all sorts of reasons.

The biggest one is continual demand. After all, we do have to eat. There are other reasons too, like the pricing power food brands tend to enjoy, the potential to expand successful operations to other markets, and the ability for investors to easily understand the business. Food manufacturers tend to pay dividends as well—something most investors enjoy.

Saputo Inc. ([TSX:SAP](#)) has become one of Canada's go-to investments for folks looking for exposure to our food market. But it has far more going for it than just exposure to Canada.

Here are three reasons why investors should be bullish on Saputo despite the company's somewhat lofty P/E multiple.

Worldwide growth

After making a series of acquisitions to essentially control Canada's milk and dairy market, Saputo has turned its attention to other parts of the world.

It started by finding and acquiring targets in the United States and made a couple of small deals in Europe, and that was followed up by the company buying up local producers in Argentina and Australia.

The Australian acquisition is particularly exciting. The big prize for Saputo could very well be China and its population of 1.2 billion people who are finally really starting to consume ice cream, cheeseburgers, and other dairy products. Through its Australian operations, Saputo can supply Chinese food manufacturers with raw materials like powdered milk.

There's all sorts of potential to keep expanding around the world too. For the most part, milk is a local business. Many countries have several small, regional distributors. Saputo has identified several countries of particular interest, including Brazil or New Zealand, and is even considering making an acquisition in Europe. It also could expand further into the United States

\$52 price target

Although Saputo trades at a high valuation of 28.4 times trailing earnings, at least one analyst is bullish on the stock.

Last week, Scotia Capital upped its price target on the stock to \$52 per share based on a number of different bullish signals, including a weak Canadian dollar propping up earnings from the United States, better dairy prices, and the company's share-buyback program. Saputo is authorized to buy back up to 19.5 million shares, but it has only repurchased about a million thus far.

The analyst's \$52 price target represents upside of approximately 13% compared to today's price.

Dividend growth

Saputo has become a favourite of dividend-growth investors, and it's easy to see why. It has massive potential to grow its payout.

The company currently pays out \$0.15 per share on a quarterly basis after recently hiking the dividend. That works out to a yield of 1.3%, which is somewhat disappointing for investors looking for income today.

But the company has a minuscule payout ratio of just 32.6% of analyst projections for its fiscal 2017 earnings. You won't find many dividend stocks with such a low payout ratio.

Look at it this way.

Even if Saputo doesn't grow its earnings at all over the next decade—which is most likely unrealistically pessimistic—and the company still grows its dividend at a 10% annual rate, it'll still only pay out about 85% of earnings. That's a terrific margin of safety.

The more likely scenario is that Saputo will continue to grow its earnings by 10% or so a year, meaning the company can continue giving investors an increasing dividend while maintaining its low payout ratio. That frees up cash for more acquisitions.

Conclusion

Although Saputo is an expensive stock, it gives investors the kind of growth potential that's difficult to find in today's market. Combine that with the company's dividend-growth expectations, and it's easy to see why investors are bullish on the name.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

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