Beware of Saputo Inc. in 2017

Description

I wanted to add more names to the get-rich-slowly list, so shares of **Saputo Inc.** (TSX:SAP) went under the microscope. Shares are anything but a buy heading into 2017. Let's take a look at some of the key points.

The company

Founded in 1954, the company is in the business of manufacturing and distributing dairy products such as cheese and milk. With operations in Canada, the United States, and Argentina, this company is one of the most dominant players in the dairy sector. For fiscal 2015, revenues totaled $10.99 billion — up slightly from $10.65 billion.

Operating in a business which is very defensive by most standards, the consistency of revenues, earnings, and dividends are exactly what we want to see when we go hunting for another get-rich-slowly candidate. Earnings per share for past fiscal years have been $1.28 for 2012, $1.43 for 2013, $1.47 for 2014, and $1.57 for 2015 — a picture investors love to see.

The dividend

Consistent with the earnings growth has been the dividend growth year over year. In 2012, dividends totaled $0.41 per share; in 2013, dividends grew to $0.46 per share, $0.52 per share in 2014, and $0.54 per share in 2015. At a current rate of $0.15 per share per quarter, 2016 will have higher dividends by the end of the fiscal year.

With regular increases in the dividends paid, we tend to get very excited as investors. The compounded annual growth rate of the dividends paid is no less than 19.23% from 2012 to 2015 — an excellent track record for long-term investors. There's more to it than just the dividends, though.

The dividend-payout ratio is also very important. In 2012, Saputo made profit of $1.28 per share and paid out dividends of $0.41 per share, translating to a dividend-payout ratio of 32%. The ratio for 2013 was 32%, and in 2014 it increased to 35%, while in 2015 it was 34%. By all accounts, I think the proportion of profits being paid out to shareholders has been fairly consistent since 2012.

Although the dividend increases and payout ratios are good news for investors, the yield is not the most generous. At a current dividend yield of approximately 1.25%, income investors will not be impressed by this company.

The price per share

Although shares are trading at almost $48, that is not the price tag. The price tag is the multiple of almost 28 times earnings. With earnings of $1.77 for the past four quarters and a share price of almost $48, investors are paying a multiple of 27-28 times earnings. That's expensive!

Conclusion

Although Saputo checks off a number of the boxes on the get-rich-slowly checklist, what you are getting versus what you are giving simply doesn't add up right now. With an excellent operation, it will be exciting to add this company to the portfolio when the times comes. For now, we're going to have to wait.

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