Time to Get Hungry for AGT Food and Ingredients Inc.

Description

AGT Food and Ingredients Inc. (TSX:AGT) announces its fourth-quarter earnings March 22 after the close of trading. In early March, **Raymond James Financial** issued a strong buy rating for its stock and a 12-month target price of $46.

This little-followed small-cap stock is currently trading within a dollar of its 52-week low of $31.26; it hasn't traded below these levels on a consistent basis since the fall of 2015. While I can't tell you where its stock is headed in the short term or even if it will rise or fall on earnings news, long term, I believe it's a winner. Here's why.

Analysts estimate it will earn $0.64 per share for Q4 2016 on $582.2 million in revenue; for the year, it's expected to earn $2.02 per share on $1.9 billion in revenue — its 10th consecutive year of revenue growth.

AGT buys lentils, peas, beans, chickpeas, and other pulse crops from farmers in Canada, the U.S., Turkey, Australia, China, and South Africa and then ships them to over 120 countries around the world. It also produces pasta under the Arbella brand in Turkey, which is sold domestically and for export, and also provides bulk handling and distribution for other company's crops.

While its food ingredients and pasta business only represent approximately 13.7% of its revenue, it's responsible for 31.8% of its adjusted EBITDA. AGT acquired the Arbella brand in 2009, the third-largest pasta brand in Turkey by domestic revenue and the largest milling facilities in Turkey for bulgur and durum wheat. Needless to say, it's an important part of AGT's business.

Although revenues in the first nine months of fiscal 2016 actually declined year over year, gross margins improved significantly, allowing it to make more money despite the declines. The main reason for this was due to higher margins in pasta and the food ingredients business.

I expect AGT to continue to use the food ingredients and packaged foods segment as a stabilizingforce in its overall business. While both its bulk handling/distribution and pulse/grain-processingbusinesses have adjusted EBITDA margins of between 2% and 7%, its food ingredients and packagedfoods segment generate adjusted EBITDA margins more than double those of the other two.

AGT's cash flow from operations has grown from $22 million in 2012 to $85 million in the latest 12 months ended Q3 2016 — a 43% annual increase over the past four years. It's a big reason why its stock has delivered an annualized total return of 16.9% over the past five years.

Its total debt as of September 30, 2016, was $512.3 million, or 67.7% of its market cap — a reasonably high number. However, its adjusted EBITDA is four times interest expenses, which is higher than it's been over the past five years.

Down 13.1% year to date through March 20, I believe that investors won't get a better deal three to six months from now because AGT stock is cheaper than it's been on an earnings basis in the past five years.

If it drops March 23 on earnings, you'll get an even better deal.

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