Has the Stock of Saputo Inc. Spoiled?

Description

Saputo Inc. (TSX:SAP) is the 10th-largest dairy processor in the world that's headquartered in Montreal. The company owns a large portfolio of brands, including Armstrong, Black Creek, Dairyland, Frigo Cheese Heads, King's Choice, Milk2Go, Nutrilait, and Treasure Cave. The company owns approximately 650 trademarks, which is quite ridiculous. If you're not lactose intolerant, then chances are that you've consumed several of Saputo's products today.

Saputo has been a boring but profitable long-term hold, as it has doubled over the last five years. The stock has since flat-lined over the past few months, like all consumer defensive names. Since Trump's presidential victory, everyone's become overly bullish, and most aggressive investors took it as far as selling their core defensive positions for cyclical ones.

I'm a contrarian investor, so if an entire sector goes out of favour, I'm on the hunt for gems within that unloved sector. But is Saputo worthy of placing on your radar? Or could the stock be headed for more pain?

Trump sets his sights on Canada's dairy sector

Donald Trump recently attacked Canada's dairy trade, calling the current state "very unfair" and saying that he's looking for "big changes" to the North American Free Trade Agreement. Donald Trump is doing everything in his power to "make America great again," but is Canada really getting the better deal? And could Saputo get hurt by any policies put forth by Trump in the future?

I think it's way too early in the game to think that a proposed Trump policy will hurt Canadian dairy companies. It's not great news for them, but I don't think it makes sense to sell Saputo because you think Trump might shut out Canada's dairy sector. We really need to learn more about what Trump is proposing, but it's likely that any changes won't be detrimental to the top line of dairy companies like Saputo.

What about value?

Saputo has been a great low-volatility name for many cautious investors, but the stock isn't cheap right now. It has a 26.3 price-to-earnings multiple, 4.2 price-to-book multiple, and a 1.7 price-to-sales multiple, all of which are higher than the company's five-year historical average multiples of 23.1, four, and 1.3, respectively. The 1.3% dividend yield is also slightly lower than the company's five-year historical average yield of 1.5%.

Sure, the company has steadily increased its earnings per share and dividend over the past decade, but does that mean it deserves to trade at such a premium, even if the entire defensive sector is lagging? I don't think so. The company will need to continue to make acquisitions to grow because there's very little space to grow organically.

Saputo is a terrific long-term defensive play, but I'm not a fan of the company's valuation. I don't see any catalysts that will drive the stock higher in the near future. If you own shares, I'd hold and wait for a pullback before picking up more.

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