Looking at SunOpta, Inc. for the 1st Time

Description

This past Friday, shares of **SunOpta, Inc.** (TSX:SOY) hit a 52-week high of $10.12 per share, giving the company a market capitalization of approximately $900 million. While a lot of mainstream investors have never heard of the company, there are a number of informed consumers who are very familiar with the company's products.

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With revenues of US$1,346 million in fiscal 2016, there has a clear upward trajectory over a number of years. Since fiscal 2013, revenues have increased at a compounded annual growth rate (CAGR) of almost 10.5%, while both net profit and cash from operations (CFO) have been going the opposite direction.

The company made normalized earnings of US$0.35 per share in 2014, and the bottom line fell to normalized earnings of US$0.06 per share in 2015 and get even worse in 2016. In the most recent fiscal year, normalized earnings (losses) were US$0.25 per share.

While the company seems to be increasing the top line at a handsome rate, the problem is on the expense side. To begin with, the gross margins are close to 10%. This means that for each $1 of product sold, the cost of goods sold (COGS) is close to $0.90. The remaining $0.10 has to be enough to cover all company expenses before arriving at the bottom line.

While the area of the food market the company operates in is typically a higher price point, the reality is, this particular area is getting more crowded with every passing month. The company's brands include Sunrich Naturals, Nature's Finest, and Pure Nature.

Should investors buy?

At a price above $10 per share, investors would be buying into a company which operates in the very competitive high-end food market. With a focus on healthy products, SunOpta may never enjoy a market the size of other major food producers. The expected earnings per share for the first quarter (according to a consensus of analysts) is net profit of $0.00 per share — that means it will break even.

There seems to be very little to get excited about at $10 per share.

The technical indicators

Let’s look at the simple moving averages (SMAs). Shares have enjoyed an excellent run over the past year. Currently trading above the 10-day SMA, 50-day SMA, and 200-day SMA, shares may finally be ready to slow down. Although the run over a 52-week period saw investors make a return close to 50%. The returns over the past six months have been 14% with the stock increasing in value by over 15% in the past week.

Conclusion

With high expectations build in to the share price, investors may want to be very careful while evaluating this name. At a current price around $10 per share, there is no price-to-earnings ratio, no dividend, and margins which are paper thin.

Thin margins may not be an issue for higher-involvement (higher-priced) goods, this issue may lead to a receding share price in the future.

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