AGT Food and Ingredients Inc. Drops 13%: Time to Buy?

Description

AGT Food and Ingredients Inc. (TSX:AGT) announced weaker than expected first-quarter earnings May 8, and the news sent investors fleeing for the exits. By the end of a single day's trading, AGT stock had dropped 13%.

Fundamentally, this is a very sound company. However, analysts were expecting $0.46 adjusted earnings per share, but it delivered $0.28 a share on an adjusted basis — almost 40% less than expectations.

So, the question is, should investors be buying rather than selling? Here's why I think it's the former rather than the latter.

First reason to buy

With the 12% drop, AGT stock is now trading within 10% of its 52-week low of $24.88. It hasn't traded this low on a consistent basis since late 2014.

"This quarter was weak in terms of our earnings; however, our relative geographic balance assisted us in mitigating the impact on our margins and volumes. We chose to pull back in certain regions and markets, with geopolitical risks coupled with governmental regulatory uncertainty in certain markets, leading us to exert caution in our sales activities," said Murad Al-Katib, president and CEO of AGT. "However, we are geographically balanced and our core pulses business, our bulk distribution and handling business and our food ingredient and packaged foods business units are healthy."

AGT might have missed analysts' estimates, but before you get too disappointed, remember that revenues and adjusted earnings per share were both higher year over year from Q1 2016. Revenues grew 18% to $520.9 million, while adjusted EPS rose 40% to $0.28.

However, only aggressive investors should consider the adjusted earnings numbers part of theanalysis on AGT. If you're a conservative investor you'll want to stick with the actual numbers — a lossof $6.4 million, or $0.27 per share, down considerably from a net profit of $27 million or $1.12 pershare.

Second reason to buy

AGT has a packaged foods business that sells pasta from Turkey under the Arbella brand and packaged pulses (peas, lentils, beans, etc.) and staple foods from Turkey, southern Africa, and Canada under several brands, including Arbel, CLIC, and Poyoukous.

While its packaged foods accounted for just 12% of its invoiced revenue in the first quarter, the segment generated 41.2% of its adjusted EBITDA. If not for the 2009 acquisition of Arbella, AGTs adjusted EBITDA would have been much worse.

The processing of pulses is AGT's primary source of both revenue and profits, but the packaged foods business, along with the bulk handling and distribution of non-pulse commodities, keeps the company diversified against global trade issues and lower market prices, as it's currently experiencing in its pulse business.

Third reason to buy

Although Raymond James Financial recently downgraded AGT to "market perform" from "outperform," the consensus 12-month price target of the five analysts is $40, providing aggressive investors with 37% potential upside over the next year.

The company is currently experiencing some temporary headwinds. However, AGT's 2015 acquisitions of Mobil Capital and West Central Road Rail provide it with the logistics infrastructure to handle greater volumes of pulses in a more cost-efficient manner.

Pulse prices currently don't reflect this competitive advantage AGT has over its competition, but once more normalized buying patterns emerge, investors should see profits grow substantially.

Bottom line on AGT stock

As it continues to fall, aggressive investors should be buying because, for once, I agree with analysts; AGT is a $40 stock.

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