Why Saputo Inc. May Be Worth a Look

Description

Over the past year, shares of **Saputo Inc.** (TSX:SAP) saw a dramatic increase in value, only to trade sideways for several months before beginning to decline in value. Currently trading near $42, shares offer investors a dividend yield close to 1.5% and trade at a trailing price-to-earnings multiple (P/E) of approximately 23 times. Although it would seem that investors are paying a bit of a high price for shares, the value may be there to back it up. Let's take a look.

In the business of producing various dairy products, including cheeses and creams, the company is more defensive than cyclical. A higher valuation is perfectly acceptable given the consistency of the business model through both good and bad economic cycles.

Let's look first at the balance sheet. There is over $2.30 in assets for every dollar of liabilities. Solvency is not an issue. Considering current assets and liabilities, the ratio is two to one. The company's liquidity will not be an issue either. With a dividend of $0.15 per share every quarter, the company has the cash to fund the dividend.

If we look at the income statement on an annual basis, we can see there has been a clear upward trend in revenues every year since fiscal 2014 (the fiscal year ends at the end of March). Revenues have increased at a compounded annual growth rate (CAGR) of 6.53% over the past four years. The bottom line of the income statement (earnings per share) has increased at a CAGR of 8.77% over the same period. Cost containment has been successful for shareholders of Saputo.

The good news for investors has been the additional sharing of excess profits in addition to the dividend. Shares outstanding have decreased by a small amount over the past few years. At the end of March 2016, shares outstanding totaled 392.52 million, which decreased to 386.23 million at the same time one year later. As shares outstanding are calculated on a weighted-average basis, the number of shares outstanding is actually less than the reported 386.23 million. Shareholders have a lot to be happy about.

The capital expenditures have consistently been higher than the amount of depreciation reported on the statement of cash flows, signalling that the company is keen on ensuring the long-term production of the finished product. By having up-to-date equipment, the company can avoid the higher-cost production of older equipment.

With most investors looking for consistent revenues, earnings, and dividends, shares of Saputo may be what's needed. With a dividend-payout ratio of only 23% for the fiscal year ending March 31, 2017, shareholders may see another increase in the cash they receive.

Investors looking for the cheddar may just have found it.

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