



## If You're Thinking About Saputo Inc., You Might Want to Consider This Other Food Stock Instead

### Description

Earlier this month, **Saputo Inc.** ([TSX:SAP](#)) delivered mediocre fourth-quarter results that included a decline in revenue and adjusted net earnings that were flat year over year. Both the top and bottom line failed to meet analyst expectations. Saputo stock fell on the news and is now down 11.2% year to date nearing the end of the first half of calendar 2017.

Despite this unimpressive display, Fool.ca contributor Ryan Goldsman [believes](#) that Saputo's consistent revenue and earnings growth makes it an attractive stock to own.

I'm not sure where I stand on the company's stock. I do know that it's grown quite a bit in recent years as a result of acquisitions, such as its purchase of Morningstar Foods in January 2013 for US\$1.5 billion.

Morningstar, a U.S. dairy products company with a national sales footprint, brought Saputo increased exposure to the U.S. market while adding \$1.6 billion in revenue.

On a valuation basis, Saputo's stock has a free cash flow yield of 4.7%, which isn't horrible, but having delivered annual total returns of 40% or more in two of the last three calendar years — 46.4% in 2014 and 45.3% in 2016 — it probably isn't on the watchlist of many value investors.

### Staying within La Belle Province

It makes sense that successful Canadian food and beverage companies are based in Quebec, a place that's always had an affinity for good food and drink.

Last May, I [suggested](#) investors take a look at three companies who used dual-class share structures to exercise control over their respective businesses. All three operate exceptionally well, and all three performed nicely for their investors over the past year. **Lassonde Industries Inc.** ([TSX:LAS.A](#)) is doing the best, up 35.7%.

A \$10,000 investment in Lassonde stock five years ago would be worth \$36,280 today. That's not bad

for a company that got its start in apple juice in 1959.

Still, it's a rounding error compared to the much larger Saputo — current market cap is \$795 million — Lassonde continues to provide good value for investors willing to give its stock chance.

### **Free cash flow yield**

For many investors, free cash flow is the most important number in a company's financial statements. Not only should a company generate free cash flow, but it also should be growing it as well.

For those unaware of free cash flow, it's defined as a business's cash flow from operating activities less the capital expenditures required to keep things running properly. As I've become a more informed investor, my attention has gone from the income statement to the cash flow statement, where the real action occurs.

I like to take a company's free cash flow over a five-year period and subtract share repurchases, dividends paid, and debt repaid. If there's money left over, I then subtract out the debt issued and stock issued, and if the number is still positive, I've got a potential winner.

Between 2012 and 2016, Lassonde's total free cash flow was \$419 million. In that time, it made no share repurchases, paid out \$55 million in dividends, and repaid \$252 million in debt, leaving a surplus of \$112 million. During this five-year period, it issued no stock and just \$16 million in debt, bringing the surplus down to \$96 million.

In my opinion, Lassonde passes the free cash flow test. It's by no means the only metric you should use to decide whether to buy its stock, but I know it helps me understand how a company allocates its capital.

In the case of Lassonde, its free cash flow yield at the moment is 7% based on 2016 free cash flow of \$119 million and a market cap of \$1.7 billion. Saputo's is 4.7% based on \$752 million in free cash flow and a market cap of \$16 billion.

### **Bottom line**

Lassonde's most recent quarter, like Saputo's, left a lot to be desired, but these things happen. What's more important are the long-term trends. In that regard, Lassonde is doing a good job growing revenues, earnings, and free cash flow.

As they say, it's not the size of the dog in the fight that counts; it's the size of the fight in the dog.

Lassonde's got plenty.

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