Why Saputo Inc. May Soon Become a Dividend Play

Description

Over the past five years, investors of **Saputo Inc.** (TSX:SAP) have done exceptionally well by holding shares and remaining patient. Given the five-year price appreciation of more than 85% in addition to the dividends received, long-term shareholders should be smiling.

For those who have invested in the past 52-weeks, however, the feeling may not be as warm and fuzzy.

Over the past 52 weeks, shares of Saputo have increased by approximately 3% in spite of reaching a high of almost $49 per share. Currently priced near the $40 mark, shares have declined by almost 15% over the past six months. In the past month alone, shares have declined by almost 8%.

The news is not all bad for investors looking for a bargain. Given the revenues of the company, it has taken investors a little longer to realize that the company is clearly no longer a growth company; instead, it's a mature operation, which means that the multiples must decline to reflect the lower growth prospects of the company.

Top-line revenues, which increased at a rate of 6.5% from fiscal 2013 to fiscal 2016, have experienced a slowdown in the level of growth. The increase from fiscal 2015 to 2016 was 1.55%, which continued to slow into the first quarter of 2017. During this quarter, the change in revenues was a decline of close to $14 million. The tide has started to recede!

Although things have not gone very well for existing investors, the opportunity lies ahead for those waiting on the sidelines. As the company's growth has slowed down, what was previously a growth-at-a-reasonable-price story is instead transitioning into a value investment.

Given the lower year-over-year increases, investors considering shares of Saputo may need to look beyond the growth story and into the company operations and the total number of shares outstanding.

Over the past four fiscal years, bottom-line earnings per share have increased at a compounded annual growth rate (CAGR) of 7.38%, which translates to a more efficient operation. As a reminder, top-line revenues increased at CAGR of 6.5% over the same period.

In considering the total number of shares outstanding used to calculate the earnings per share, investors will find consistency over the past several years. In 2013, the number of shares outstanding was 1,193 million, which has varied very little since. As of the end of the first quarter of 2017, the number of shares outstanding totaled 1,198 million.

Hoping to find a potential catalyst which would give shareholders reason to remain patient (or even take a new position in the security), the story may just be the initiation of a share buyback or a drastic increase in dividends.

Given that the amount of retained earnings has increased dramatically over the past four years, investors may begin asking for a significantly greater share of the profits.

Investors may want to keep an eye on this name.

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