



## Saputo Inc. Could Win Big After NAFTA Renegotiation

### Description

On July 18, the United States Congress took aim at the Canadian supply-management system. Though an explicit appeal to end the system was not present in the wording of the document, there were requests to revise key parts of NAFTA that could affect Canadian policy in this regard. Several points expressed the desire to remove tariffs on agricultural products.

Canadian government policies to control the prices of dairy, eggs, chicken, and turkey are coming into conflict with the U.S. initiative to have these markets open to their own competitors.

### Saputo Inc. is gaining on positive expectations

**Saputo Inc.** ([TSX:SAP](#)) is a Montreal-based dairy company. It distributes, produces, and markets dairy, including cheese, milk, cream, and other dairy products.

Saputo stock has declined 10% so far in 2017. Shares suffered in June when the company reported disappointing results for the last quarter. It earned \$165.2 million, or \$0.42 per share, compared with \$141 million, or \$0.36 per share, in the same quarter in 2016.

Revenue totaled \$2.72 billion, down from \$2.73 billion in 2016.

However, the share price spiked on Wednesday to \$42.42 — gaining 4.95%. This was after **Royal Bank of Canada** analysts raised its rating to “outperform.” The company announced a quarterly dividend on June 1 of \$0.15 per share, representing an annual dividend of \$0.60 with a yield of 1.48%.

### How will the NAFTA renegotiations affect the company?

In a 2016 interview with the *Financial Post*, Saputo CEO Lino Saputo Jr. made it clear that his company was in favour of a liberalization of trade and a potential end to the supply-management system. “If there were no milk supply management system, we would definitely have the opportunity to grow and compete even against U.S. players,” he said. “I think Canada would have been better off with an open market system.”

Saputo benefit from the stability of price guarantees for dairy farmers, but it has ambitions to expand to additional markets and seems to welcome the competition that free trade will bring.

There can be little doubt that the leadership at Saputo believes that open markets will bring more opportunity for further growth. However, the renegotiation process promises to be long and arduous, and Prime Minister Justin Trudeau has made it clear that his government will look to stand firm on supply management.

The talks are expected to begin in mid-August.

The financials for Saputo continue to be strong in spite of the weaker-than-expected Q1 earnings report. Analysts are expecting an 11% increase in earnings per share from the previous quarter. The company has a market cap of \$15.67 billion and is one of the 10 largest dairy processors in the world.

After experiencing a swoon in the first half of 2017, Saputo may offer great value before the release of its Q2 earnings. If supply management faces restructuring or even abolishment over the course of NAFTA renegotiations, Saputo could stand to benefit with major growth on the back of international expansion and more liberal markets.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

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1. Investing

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