Saputo Inc.'s Earnings Are up Over 13% in Q2: Time to Buy?

Description

Saputo Inc. (TSX:SAP) released its first-quarter earnings for 2018 today which showed revenues which reached $2.89 billion for an increase of almost 10% from 2017. Earnings for the company were up over 13%, breaking over $200 million for the quarter. On a per-share basis, earnings totaled $0.51 for Q1 compared to $0.44 from a year ago.

Let's have a closer look at the earnings to see how the company performed so well and if it is a buy.

Sales by region

In Canada, sales were just under $1 billion for the quarter and were flat year over year. The U.S. sector saw large revenue growth of 13% with sales totaling $1.578 billion in Q1. In the international sector, revenues of $314 million were up over 29% from last year.

Sales volumes as well as higher average prices for cheese and butter were the main factors that pushed the company's revenues up.

Looking ahead

The company is committed to finding cost efficiencies as it plans to close its plant in Ottawa and is making capital investments to improve efficiency and increase its overall capacity. On the sales side, the company's cheese division in the U.S. is looking to grow the company's exports worldwide in an effort to increase total sales. Internationally, the company is also planning to continue developing in new markets and hopes to extend its reach even further.

Is the stock a buy?

Currently, the stock is trading at 22 times its earnings per share, which is lower than comparable companies, such as **Maple Leaf Foods Inc.** (TSX:MFI), which is at over 26 times earnings, and **Premium Brands Holdings Corp.** (TSX:PBH), which trades over 35 times its earnings. There is still plenty of upside in Saputo's stock, especially after coming off a nearly 52-week low only a month ago.

With a dividend yielding just 1.4%, the company does not offer much for investors looking to build income. The company's strong cash flow from operations certainly suggests Saputo could afford to increase the dividend to make it a bit more competitive. However, the company has opted to go the route of buying back shares rather than increasing payouts.

Overall, I think the stock presents a good buy at its current price of about $42 per share. The company has shown strong growth and is recovering after recently reaching a low for the calendar year, so there is plenty of room for the stock to appreciate in value. I typically look at if the stock can increase at least 5% from where it is now, and that would put Saputo's stock at over $44 a share, which certainly looks probable.

Long term, I am skeptical about how much more growth the company can achieve. In its last fiscal year, the company saw revenues rise less than 2% from the prior year. Without a significant acquisition or an expansion into a new market, I'm not sure I see how the company is going to be able to continue to grow.

However, in the short and medium terms, I think Saputo offers a lot of potential upside in its share price to net you a decent return.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MFI (Maple Leaf Foods Inc.)
2. TSX:PBH (Premium Brands Holdings Corporation)
3. TSX:SAP (Saputo Inc.)

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