



Food Prices Are Rising: Should You Buy Maple Leaf Foods Inc. and Saputo Inc.?

Description

A report from the Food and Agriculture Organization of the United Nations in July showed that global food prices were up 7% from the previous year. Researchers at Dalhousie University released a report this year that projected meat prices in Canada to rise 7-9%. The same report also predicted that the price of dairy, eggs, and bakery goods would drop between 1% and 3%.

Stock of the Canadian meat-packaging company **Maple Leaf Foods Inc.** ([TSX:MFI](#)) is up 19.8% in 2017 as of close on September 14. The company released its second-quarter results on July 27, which saw sales increase 8.3% and adjusted earnings per share up 28.1%. In spite of this, the stock has only experienced 2% growth since earnings were posted.

Shares got a boost in February when Maple Leaf announced the purchase of Lightlife Foods Inc. for \$140 million. The purchase gives Maple Leaf access to Lightlife's vegetarian alternative products. Although meat prices have risen lately, annual-per-capita consumption of meat has dropped steadily among Canadians post-1999. Demographics and shifting health priorities have been major catalysts, and there has been a marked increase in younger generations identifying as vegan or vegetarian. In any case, the move gives Maple Leaf access to an alternative market that will likely grow relative to the decline in meat products.

Saputo Inc. ([TSX:SAP](#)) stock has declined 10.6% in 2017 and 2.1% year over year. The Montreal-based company is one of the 10 largest dairy processors in the world. On August 31, Saputo announced that it acquired the extended-shelf-life dairy product activities of the Floridian-based company Southeast Milk, Inc. The activities of this business generated revenues of \$59 million in 2016.

Saputo released its fiscal first-quarter results for 2018 on August 1. Net earnings were up 13.4% to \$200.3 million, and revenues were up 9.9% to \$2.9 billion. Saputo is currently the focus of some interest as the dairy business has been thrust into the political realm. The recently concluded Conservative leadership race in Canada was tightly contested, and there was speculation that front runner Maxime Bernier lost the final round due to his opposition to supply management.

The other major story is, of course, the ongoing NAFTA renegotiation process with Canada, the United

States, and Mexico. President Trump targeted Canadian dairy at a rally in Wisconsin and hinted that supply management could be in the crosshairs in the negotiations. Saputo benefits from the protectionist measures of supply management, but the company has said in the past that it would embrace a more open system. If NAFTA negotiations result in an end to the system, Saputo could feasibly gain in the long term.

With dairy and egg prices facing marginal declines, and meat prices nearing double-digit increases, I favour Maple Leaf Foods stock. The company has taken steps to mitigate declines in meat consumption and benefit from a rising demand in vegetarian and vegan alternatives.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:SAP (Saputo Inc.)

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