U.S. Demands an End to Supply Management: Should You Sell Saputo Inc.?

Description

As the fourth round of NAFTA negotiations continued in Washington, the U.S. delegation laid out its more aggressive ambitions over the course of the meetings. Reports now indicate that the United States is seeking far greater access to the Canadian dairy market and wants the system of supply management to be ended within 10 years.

Supply management allows for price controls of milk, cheese, eggs, turkey, and chicken by controlling domestic production and implanting high tariffs on imports. The catch-all policy has been controversial in Canada for some time. Consumer advocates have pointed to higher prices for these products that place an undue burden on Canadian citizens; some estimations put family costs on these products at over $300 per year, per family. Supply management was also a crucial wedge issue over the course of the recent Conservative leadership race in Canada.

Almost 10% of all farms in Canada operate under supply management. The system was put on the negotiation table during TPP and CETA meetings before Canadian farming interests moved in to block movement. The policy will undoubtedly continue to be a political lighting rod moving forward.

Shares of Montreal-based dairy company **Saputo Inc.** (TSX:SAP) have dropped 7.3% in 2017 as of close on October 16 and 5.9% year over year. The company is set to release its fiscal 2018 second-quarter results on November 2. Saputo last released its fiscal 2018 first-quarter results on August 1.

Net earnings were up 13.4% to $200.3 million, or $0.51 per share. Revenues also climbed 9% to $2.89 billion from $2.63 billion in fiscal Q1 2017. Saputo saw good results in the U.S. due to higher cheese and butter prices that drove up revenues. In Canada, revenues were relatively flat, but the company was pleased with raw material and ingredient optimization.

In a June 2016 interview, Saputo CEO Lino Saputo Jr. said that Canada would be more competitive without the supply management system. Saputo Jr. was thankful that the system allowed for reduced volatility in local markets, but as Saputo seeks international growth, a rollback in the system could give Saputo access to additional markets.

Saputo also said that Canadian facilities could improve capacity utilization without supply management. In 2016, Canadian plants were operating at 70% capacity utilization compared to 98% in the United States. Saputo has been making inroads in Australia, Argentina, and Brazil, and may be eyeing a South American acquisition in the future.

Is Saputo Inc. a buy ahead of earnings?

The United States has laid out several demands that the Mexican and Canadian delegations are dismissing as unreasonable. After quashing any tweaks in CETA and TPP negotiations, it is likely that farming lobbyists would act quickly if the Canadian government signaled any movement this time around.

With that being said, the U.S. is also exploring protectionist measures of its own in response. Though it may not be able to force Canada to cede to its demands, retaliatory measures could spark a change in domestic policy.

Saputo appears to be in a strong position moving forward, as it could actually benefit greatly from an end to the policy. The stock also offers a dividend of $0.16 per share, representing a 1.45% dividend yield.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SAP (Saputo Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/21
Date Created
2017/10/20
Author
aocallaghan