# Why Maple Leaf Foods Inc. Rallied 2.65% on Thursday

## Description

**Maple Leaf Foods Inc.** (TSX:MFI), Canada's largest consumer packaged meats company, released its third-quarter earnings results before the market opened on Thursday, and its stock responded by rising 2.65% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if this could be the start of a sustained rally higher and if we should be long-term buyers today.



### The results that sent the stock higher

Here's a quick breakdown of six of the most notable financial statistics from Maple Leaf's three-month period ended on September 30, 2017, compared with the same period in 2016:

| Metric | Q3 2017 | Q3 2016 | Change |
|---|---|---|---|
| Sales | $908.36 million | $852.10 million | 6.6% |
| Adjusted EBITDA | $96.41 million | $87.75 million | 9.9% |
| Adjusted EBITDA margin | 10.6% | 10.3% | 30 basis points |
| Adjusted operating earnings | $65.15 million | $61.52 million | 5.9% |
| Adjusted earnings per share (EPS) | $0.39 | $0.32 | 21.9% |
| Free cash flow | $154.29 million | $146.68 million | 5.2% |

### What should you do with Maple Leaf's stock now?

It was an outstanding quarter overall for Maple Leaf, and it has been on a tear so far in 2017, with its sales up 5.7% to $2.65 billion, its adjusted EBITDA up 11.9% to $287.58 million, and its adjusted EPS up 22.8% to $1.13 in the first nine months of the year compared with the same period in 2016. That being said, I think the market responded correctly by sending Maple Leaf's stock higher in Thursday's trading session, and I think it still represents a great investment opportunity for the long term for two fundamental reasons.

First, it's still undervalued. Maple Leaf's stock is up over 18% year to date, but it still trades at just 22.2

times fiscal 2017's estimated EPS of $1.50 and only 19.8 times fiscal 2018's estimated EPS of $1.68, both of which are inexpensive compared with its five-year average multiple of 25.5; these multiples are also inexpensive given its current double-digit percentage earnings-growth rate.

Second, it's a stealthy dividend-growth play. Maple Leaf currently pays a quarterly dividend of $0.11 per share, equal to $0.44 per share annually, which gives it a yield of about 1.3% today. A 1.3% yield is far from high, but investors must note that the company's 22.2% dividend hike in February has it on track for 2017 to mark the third consecutive year in which it has raised its annual dividend payment, and I think its very strong operational performance will allow this streak to easily continue into the 2020s.

With all of the information provided above in mind, I think Foolish investors seeking exposure to the food industry should consider initiating long-term positions in Maple Leaf today with the intention of adding to those positions on any weakness in the trading sessions ahead.

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