Saputo Inc. Continues to Build for Long-Term Growth, Despite Disappointing Q2

Description

Saputo Inc. (TSX:SAP) released its quarterly earnings last week, which saw sales rise just 1%, while earnings per share of $0.47 were down from $0.48 a year ago. Net earnings of $185 million were down over 3% from last year, and EBITDA was also down by a similar amount.

Saputo is one of Canada's most well-known brands, and with the stock down 5% year to date, it could be a great value buy for the long term, and it could be poised to take off. Let's take a closer look at the company's financials and assess if it is still a good buy today.

Sales growth continues to be a challenge

Although sales were up year over year, Saputo's Q1 revenues were higher and up 10% from the prior year. The problem for the company is that its operations are very saturated, and consistent growth can be difficult to achieve.

If we look at the different geographical areas the company operates in, we see that Canadian sales were down 1%, while in the U.S. revenue was flat. It was the company's international segment that drove the growth this past quarter, with sales of $323 million rising over 20% year over year, and up 3% from Q1.

It's clear that if Saputo is going to be able to grow its sales, it won't happen without a strong performance outside North America.

Struggling U.S. market pulls EBITDA down

Saputo's EBITDA for the quarter was down over 3%, as the increase in revenue was offset by adverse market conditions and unfavourable product mixes, which caused an overall decline in profitability for the quarter.

Specifically, it was the U.S. segment that saw a big decline in EBITDA; it's down as much as 13% from last year. Increasing Canadian sales resulted in EBITDA rising by 2% for that sector, while the international segment contributed an extra $11 million to EBITDA this quarter for a year over year increase of 47%.

Acquisitions pave the way for future growth

One way that Saputo will be able to continue to grow is via acquisition. Earlier this month, the company announced that it would be acquiring Betin Inc., the company that produces the Montchevre goat cheese.

With already a wide range of cheeses in its portfolio, adding yet another strong brand will help fuel the company's top-line growth. In the past year, Montchevre's sales totaled $150 million.

In October, Saputo announced a $1.3 billion deal to buy Murray Goulburn Co-operative, an Australian dairy farm that would see Saputo instantly become the country's top milk producer.

Is the stock a buy?

Currently the stock trades at ~24 times earnings, and given the challenges the company faces, it may be hard to justify such a premium. However, if we look at its peers, we see that **Maple Leaf Foods Inc.** (TSX:MFI) trades at a similar multiple to earnings, and **Premium Brands Holdings Corp.'s** (TSX:PBH) stock is priced at over 37 times its total profit.

Saputo is a good long-term investment that should provide investors with stability. Although organic growth may be hard to come by, the company's acquisitions should provide it with many opportunities to expand its sales and generate long-term capital appreciation for investors.

A small dividend of 1.4% might not be enough to attract dividend investors, but it is stable and might be enough to compensate investors for their patience, as the stock may take some time to grow.

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