



Why AGT Food and Ingredients Inc. Fell Over 15% Last Week

Description

AGT Food and Ingredients Inc. ([TSX:AGT](#)), one of the world's largest processors of value-added pulses, staple foods, and food ingredients, watched its stock fall 15.14% last week due to a disappointing third-quarter earnings release on Monday morning, which led to analyst downgrades and price target reductions throughout the rest of the week. The stock hit a fresh 52-week low during the decline and now sits more than 51% below its 52-week high of \$37.54 reached back in December 2016, so let's break down the quarterly results and the fundamentals of its stock to determine if now is finally the time to buy.

The results that ignited the sell-off

Here's a quick breakdown of 10 of the most notable financial statistics from AGT's three-month period ended September 30, 2017, compared with the same period in 2016:

| Metric | Q3 2017 | Q3 2016 | Change |
|--|------------------|------------------|--------------------|
| Pulse and Grain Processing revenues | \$204.95 million | \$248.46 million | (17.5%) |
| Bulk Handling and Distribution revenues | \$79.70 million | \$168.49 million | (52.7%) |
| Food Ingredients and Packaged Foods revenues | \$73.67 million | \$72.25 million | 2.0% |
| Total revenues | \$340.93 million | \$442.29 million | (22.9%) |
| Adjusted gross profit | \$29.39 million | \$47.03 million | (37.5%) |
| Adjusted gross margin | 8.6% | 10.6% | (200 basis points) |
| Adjusted EBITDA | \$10.13 million | \$27.40 million | (63.0%) |
| Adjusted net (loss) earnings | (\$1.37 million) | \$12.02 million | (>100%) |

| | | | |
|--|---------|---------|---------|
| Adjusted diluted net (loss) earnings pershare (\$0.06) (EPS) | | \$0.50 | (>100%) |
| Total metric tonnes invoiced | 441,204 | 488,177 | (9.6%) |

Was the +15% drop in AGT's stock warranted?

Simply put, it was a horrible quarter overall for AGT, and it has been a tough year for the company, as its revenues increased just 0.4% to \$1.33 billion, its adjusted gross profit declined 25.1% to \$106.61 million, its adjusted EBITDA declined 41.4% to \$49.31 million, and its adjusted diluted EPS declined 74.4% to \$0.32 in the first nine months of 2017 compared with the year-ago period. The company noted that its disappointing performance could be attributed to negative market conditions, such as low prices and oversupply in its core segment.

With all of this being said, I think 6.5% drop in its stock on Monday following the earnings release was warranted, and I do not blame analysts for downgrading the stock and lowering their price targets throughout the week, which helped push it lower by 9.25% from Tuesday to Friday.

What should you do now?

Even though I think the 15.14% drop in AGT's stock last week was warranted, I think it has led to an attractive buying opportunity for investors with a long-term mindset like myself for two primary reasons.

First, it trades at very inexpensive forward valuations. AGT's stock currently trades at 40.4 times the consensus analyst EPS estimate of \$0.45 for this year, which is steep, but it trades at just 14.5 times the consensus estimate of \$1.25 for fiscal 2018, which I think is very inexpensive given its past earnings performance and its earning potential in the years ahead when market conditions normalize.

Second, it's now a high yielder. AGT pays a quarterly dividend of \$0.15 per share, equal to \$0.60 per share annually, which gives it a juicy 3.3% yield. The company has maintained this annual dividend rate since 2012, and even though its profitability has taken a hit in 2017, I do not think its dividend is at risk of being reduced or eliminated at this point.

AGT's stock has fallen more than 50% year to date, more than 39% since its [first-quarter earnings](#) release on May 8, and more than 12% [since October 19](#), but I think the downside will be limited from here, and I think that the risk-to-reward ratio from an investment standpoint is very attractive at current levels. Foolish investors who are willing to take a calculated risk should take a closer look and consider initiating positions today.

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