Why Maple Leaf Foods Inc. Is Down Over 2%

Description

Maple Leaf Foods Inc. (TSX:MFI), Canada's leading consumer packaged meats company, announced its fiscal 2017 fourth-quarter and full-year earnings results this morning, and its stock has responded by falling over 2% at the open of the day's trading session. Let's break down the results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity.

Breaking down the financial results

Here's a quick breakdown of six of the most notable statistics from Maple Leaf's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Sales	$876.81 million	$828.18 million	5.9%
Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA)	$93.48 million	$86.36 million	8.2%
Adjusted EBITDA margin	10.7%	10.4%	+30 basis points
Adjusted operating earnings	$64.65 million	$63.72 million	1.5%
Adjusted earnings per share (EPS)	$0.41	$0.31	32.3%
Free cash flow	$40.26 million	$35.90 million	12.1%

And here's a quick breakdown of six most notable statistics from Maple Leaf's 12-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Fiscal 2017	Fiscal 2016	Change

Sales	$3,522.23 million	$3,331.81 million	5.7%
Adjusted EBITDA	$381.06 million	$343.44 million	11.0%
Adjusted EBITDA margin	10.8%	10.3%	+50 basis points
Adjusted operating earnings	$263.84 million	$239.28 million	10.3%
Adjusted EPS	$1.54	$1.23	25.2%
Free cash flow	$244.45 million	$243.96 million	2.0%

Putting a smile on shareholders' faces

In the press release, Maple Leaf announced an 18.2% increase to its quarterly dividend to $0.13 per share, and the first payment at this increased rate will come on March 29 to shareholders of record at the close of business on March 9.

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

It was a solid quarter and year for Maple Leaf, driven by "improvement in prepared meats, plus accelerating growth in the U.S. and plant protein," and the dividend increase was icing on the cake, so I do not think the +2% drop in its stock is warranted; that being said, I think the drop represents an attractive entry point for long-term investors for two fundamental reasons.

First, it's undervalued. Maple Leaf's stock now trades at just 22.2 times fiscal 2017's adjusted EPS of $1.54 and only 20.1 times the consensus EPS estimate of $1.70 for fiscal 2018, both of which are inexpensive compared with its five-year average multiple of 25.3; these multiples are also inexpensive given its current earnings-growth rate and its long-term growth potential.

Second, it's becoming a dividend star. Maple Leaf now pays an annual dividend of $0.52 per share, which brings its yield up to about 1.5%. A 1.5% yield is not high by any means, but it's very important to note that the dividend hike the company just announced has it on track for 2018 to mark the fourth straight year in which it has raised its annual dividend payment, and I think its steady growth in earnings and free cash flow will allow it to continue to deliver dividend growth for many years to come.

With all of the information provided above in mind, I think Foolish investors should consider using the post-earnings weakness in Maple Leaf's stock to begin scaling in to long-term positions.

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