



## Is Maple Leaf Foods Inc. a Buy After Q1 Results?

### Description

**Maple Leaf Foods Inc.** ([TSX:MFI](#)) released its first-quarter results on May 2. Shares of Maple Leaf fell 1.16% on May 7 and the stock has dropped 18.9% in 2018 thus far. The stock has suffered a precipitous decline since reaching an all-time high of \$37.08 in December 2017. Is it worth buying at its current price?

In the first quarter sales increased 0.8% year-over-year to \$817.5 million. Net earnings dropped 7.3% to \$27.9 million and adjusted earnings per share fell 12.1% to \$0.29 from \$0.33 in the prior year. The company was able to deliver EBITDA margins of 10.1% as it suffered complications to start the year.

Maple Leaf posted positive sales in prepared meats, with LightLife and Field Roast contributing to increased sales in Q1. Sales in value-added fresh pork dropped due to lower market values and a reduction in hog supply from Porcine Epidemic Diarrhea Virus (PED) in 2017. Going forward, the pork market could be impacted by the ongoing [U.S.-China trade spat](#).

In early April, China announced tariffs on a number of U.S. agricultural goods. Chinese importers cut orders for pork and soybean purchases experienced a significant decline. The United States Department of Agriculture reported the largest weekly drop in net pork sales since October 2016 in the aftermath of the announced tariffs on April 2. China is the largest pork market in the world, and pork supplies have expanded in the U.S. in hopes of meeting this demand.

Does this mean Canadian companies such as Maple Leaf will have ample opportunity to take advantage? Unfortunately, it's not so simple. For example, Manitoba's pork producers expect to take a hit along with U.S. producer due to close cross-border ties. Formulas are often based on a national price base in the U.S., which will drive down revenue for Canadian producers in the event of a disruption.

Canadian processors like Maple Leaf have the opportunity to move in on the gigantic Chinese market. Canada will be forced to compete with producers and processors from European markets as well provided the tariffs are not scrapped altogether in the event of a broader agreement between China and the U.S. However, recent negotiations have witnessed both sides digging in their heels.

On May 7, Maple Leaf introduced changes to its brand. It pledged to use only real, simple or natural ingredients. In April, Maple Leaf also announced that it would provide Series A funding to Entomo Farms, [the largest farmer of insects](#) for human consumption in North America. For the remainder of the year, Maple Leaf will roll out a new logo, packaging design, and more accessible ingredients lists on its products.

Maple Leaf is in a good position to overcome headwinds in the pork industry in 2017. Its foray into LightLife is a savvy move, with meat alternatives growing in popularity among Canadian consumers. The stock also offers a quarterly dividend of \$0.13 per share, representing a 1.5% dividend yield. To sum up, I still like Maple Leaf stock going forward after its sharp dip to start this year.

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