RRSP Investors: Should Saputo Inc. (TSX:SAP) Be in Your Portfolio?

Description

Canadian investors often pick the most popular companies when buying stocks for the self-directed RRSP portfolios.

This strategy can certainly work, but there is also value in searching for off-the-radar names that are industry leaders and have strong track records of providing solid long-term returns.

Let's take a look at **Saputo Inc.** (TSX:SAP) to see if it deserves to be on your buy list.

Uncertain times

Saputo recently made a rare appearance in the headlines when CEO Lino Saputo Jr. broke ranks with the country's dairy farmers, suggesting Canada's dairy supply-management system needs an overhaul. It's not the first time he has made such statements, but the media decided to pay more attention, given the current NAFTA talks.

What's the issue?

Supply management has been in effect in Canada for decades, and many reports have come out to say it should end. The country's dairy farmers limit production to meet the needs of the Canadian market and have an agreement in place with processors, such as Saputo, to ensure a Canadian market exists for Canadian milk ingredients. Currently, less than 10% of market is served by imports.

Last year, the Federal government agreed to allow 16,000,000 kg of new European cheese into Canada over the next five years as part of the Canada-E.U. trade deal. Now that NAFTA negotiations are underway, the U.S. is focused on reducing or eliminating tariffs placed on American dairy producers that want to export to Canada.

Canadians pay some of the highest prices in the world for their dairy products.

Should you buy Saputo?

Saputo's recent comments shouldn't come as a surprise to investors, as the company is one of the top 10 dairy processors in the world. It is the largest cheese manufacturer in Canada, but also the top dairy processor in Australia and number two in Argentina. In the United States, Saputo is among the top three cheese producers and is one of the largest makers of extended-shelf-life and cultured dairy products.

A dismantling of supply management in Canada shouldn't have a significant negative impact on Saputo. In fact, it could turn out to be a net benefit for the company.

Saputo is making strategic acquisitions in Canada and abroad, and investors should see steady growth continue.

Long-term holders of the stock have done well. A $10,000 investment in Saputo 20 years ago would be worth more than $125,000 today with the dividends reinvested. The current payout provides a yield of 1.5%.

If you are looking for a top-quality Canadian company to put in your RRSP portfolio, Saputo deserves to be on your radar.

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