As International Soybean Trade Shifts Focus, SunOpta Inc. (TSX:SOY) Is a Strong Buy

Description

Amid the news that China will be applying tariffs on American soybeans as of July 6, stocks in that commodity appear set to rise in other international markets. Other members of the Asia-Pacific Trade Agreement as well as Brazil, are obvious alternative markets that could benefit. However, Canadian investors should consider our own home-grown soybean supplier, **SunOpta Inc.** (TSX:SOY), as a stock to watch as international trade in the commodity rebalances.

A high-growth stock with a strong buy signal

A somewhat overvalued stock at present in terms of pricing, SunOpta's multiples aren't necessarily a good indicator of the overall value of this stock. Ordinarily, value is calculated by past performance and correlation to the market. But both the past performance of commodity stocks and the market in general are about to suffer a crisis of identity as the international trade landscape shifts profoundly.

Once China applies its tariffs on American soybeans, cheaper options are likely to become more attractive to Chinese companies. With an expected annual growth in earnings of 103.4%, SunOpta was already a high-growth stock to watch. However, once Canadian soybeans start to look tastier to the Chinese market, it's quite possible that SunOpta's growth will be somewhat higher over the coming months.

Looking for a commodities stock to buy now? This could be it

As SunOpta does not currently pay dividends, the main advantage of buying is the potentially large capital gains that could be made down the road. Its beta is somewhat higher than the Canadian food market's – at 1.5 versus 0.81 – thereby reflecting the volatility of its price, so timing is everything.

Counting some major high-profile names in the food industry among its customers, SunOpta is well positioned to enjoy substantial growth in the organic, non-GMO, and specialty food markets. It's got a strong buy signal from analysts, and is currently surging on the back of changes in international trade between the U.S. and its partners.

However, growth investors should keep an eye on international soybean trade if they are thinking of taking a position. While Brazil and Canada could benefit from China's tariffs on American soybeans, Beijing is also lowering tariffs on the commodity from India, South Korea, Bangladesh, Laos and Sri Lanka. This could mean that the benefit to Canadian suppliers may be limited.

The other thing to bear in mind is that the new tariffs may be lifted before that benefit can be seen. Faced with the possibility of inflation, the tariffs may end up cutting both ways and could theoretically have to be revisited. Additionally, look at market share. Current American soybean imports account for between 20% and 30% of total Chinese soybean imports, so that should give some idea of the potential space for competing suppliers.

The bottom line

If you want a speculative stock that is likely to rise sharply in price this year, SunOpta is for you. To reiterate, timing is key if you want to rake in those capital gains. However, for now, the main thing Canadian investors need to know is that overvalued or not, there might not be a better time to buy SunOpta stock this year than right now.

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