Here Is Why Saputo Inc. (TSX:SAP) Stock Could Be a Buy-Low Opportunity Today

Description

Saputo (TSX:SAP) stock was down 2.53% in early afternoon trading on September 4. Shares are down 11.5% in 2018 so far. Back in January, I'd suggested that investors keep an eye on Saputo during NAFTA negotiations that are still ongoing.

The fate of supply management hangs in the balance as the Trump administration has sought its dismantling. This is one of several concessions that are sought by the White House to move forward on a renewed U.S.-Canada trade agreement. Developments last week indicate that the Canadian negotiating team is unwilling to torpedo this policy, even as the U.S. has applied greater pressure.

Saputo leadership has gone on record on multiple occasions to throw its support behind ending the supply-management system. Back in June, CEO Lino Saputo Jr. lashed out against Canadian dairy farmers who have been tenacious in defence of the policy. "They want their cake and they want to eat it too," Saputo Jr. said referring to farmers. "Which doesn't make sense. You can't hold on to your milk supply-managed system and have a class of milk competing with world markets at the same time."

This has been Saputo's stance dating back several years. Saputo Jr. pointed out back in 2015 that the end of the policy could bring volatility to domestic markets but that the company would benefit from access to international consumers. Dairy Processors Association of Canada, of which Saputo is a member, offered a firm rebuke of the comments and reiterated its intention to push for "modernization" of the policy rather than scrap it completely.

The debate over the system in Canada has even resulted in a split in the Conservative Party that could have major consequences in the 2019 federal election. The next weeks and months will determine whether or not the Trudeau-led negotiating team is willing to turn away from the system in order to strike a deal. If it does, Saputo could be a big winner in the long term.

Saputo released its fiscal 2019 first-quarter results on August 7. Revenues rose 13% year over year to $3.26 billion, while adjusted net earnings fell 20% to $160.3 million. Saputo's acquisition costs dragged down earnings in Q1 by approximately $34 million, according to the quarterly report. The fluctuation of the Canadian dollar also had a negative impact on revenues and adjusted EBITDA.

On the plus side, the board of directors elected to hike its quarterly dividend by 3.1% to $0.165 per share. This represents a modest 1.6% dividend yield. Saputo has posted over 15 consecutive years of dividend growth.

A flurry of acquisitions should give Saputo a boost as we move further into the year. All eyes will continue to be on the supply-management debate over the course of this month. It is impossible to predict how these tumultuous trade negotiations will end, but recent fireworks indicate that the long-running policy may be in serious jeopardy.

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