Here’s Why You Might Want to Get Out of Stocks Like Saputo (TSX:SAP) Right Now

Description

So long NAFTA; it was nice knowing you. Now that USMCA is the beat that the TSX must dance to, how are food — and especially dairy — stocks looking for domestic investors? Below, we’ll go through some data for a favourite dairy stock and see how it compares to a very different stock from a very different industry. Could it be that Canadian tech is finally becoming a hunting ground for value investors?

Saputo (TSX:SAP)

A market cap of $15 billion is one of the strongest reasons to own this stock. It’s about as defensive as food stocks go (though, of course, few such stocks come close to the likes of **Nutrien**). Saputo’s P/E of 19.6 times earnings is far from terrible, though it exceeds both market and industry averages, as do its PEG and P/B ratios.

A one-year past earnings growth of 3.5% matches exactly the industry average of for the same period, though it does trail its own five-year average past earnings growth of 10.8%. A dividend yield of 1.68% probably isn’t enough to satisfy most investors’ appetites, while a debt level of 58.5% of net worth could definitely be lower for a souring food stock.

Open Text (TSX:OTEX)(NASDAQ:OTEX)

This FAANG-alike stock seems an odd choice to put up against Saputo, but the reasoning for it is that Canadian tech might be swinging around to claim new territory, just as traditional sectors such as food are beginning to lose out. A market cap of $10 billion easily beats Saputo and pegs this popular stock as a strong defensive play out of sheer size.

The industry’s average of 13.5% for the same earnings period can’t beat Open Text’s five-year average past earnings growth of 22.9%. Sadly, neither can Open Text: a one-year past earnings growth of -76.4% is where this stock starts to look like its tech bedfellows.

Discounted by 49% of its future cash flow value, Open Text seems, on the face of it, undervalued. It is and it isn't: a P/E of 39.8 times earnings is good value for a Canadian software stock, though obviously it signals clear overvaluation compared with the market. A PEG of 2.6 times growth counts this one out for fans of both growth and value, though asset-focused investors should be aware that Open Text's P/B of 2.6 times book beats the average for the industry.

A 15.6% expected annual growth in earnings over the next one to three years makes this a better stock than Saputo for outlook, though. A dividend yield of 1.69% beats Saputo's by the merest of margins, and even its level of debt of 70.5% of net worth is similar. A fair amount of inside selling in Open Text is not a good sign and signals that confidence in the company among insiders could be low, but time will tell.

Go for competitors such as **Microsoft**, **Alphabet**, or **Siemens** if you want to add some U.S. tech stocks to your portfolio, or simply give their figures a look over if you want to see what comparative value looks like in that sector.

The bottom line

Saputo seemed like a decent stock before the events of the summer, but now looks decidedly dicey next to the tech pick. Open Text is one of Canada's most convincing answers to the American FAANG stocks that have been weighing down the NASDAQ of late on the back of a Chinese slowdown, so go for it if you want that value, plus some passive income and a bit of growth. Meanwhile, the dairy industry itself may be safe for the time being, but its stocks are definitely going a little sour.

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