Can This Food Producer Help Beef Up Your Portfolio’s Dividend Growth?

Description

Whenever tough market conditions start to take effect, I think of two things to get me through the rough patch: products that everyone needs and dividends. If a company has these two attributes, I begin to dig a little deeper to see if they would make good additions to my portfolio. Since there isn’t a product people need much more than food, I figured that would be a good place to start.

Canada has quite a large number of companies in the food industry. One of the most iconic brands for many Canadians is **Maple Leaf Foods** (TSX:MFI). The maker of summer BBQ staple Schneiders hot dogs and breakfast standard Maple Leaf bacon is quite well known in Canada. Although its history can be traced back to 1836, Maple Leaf was established as a public company in 1991 through the combination of Maple Leaf Mills Ltd. and Canada Packers Inc. Since 2014, Maple Leaf has singularly focused on selling protein-based products, primarily meat, to the masses, although its plant-based protein products have been growing quite rapidly.

The transition appears to be gaining some traction. After experiencing falling revenues for a number of years, the company’s numbers are very slowly picking up. Maple Leaf experienced a 1.1% sales growth year over year in the second quarter, a move in the right direction. Earnings were down in the second quarter, though, as was EBITDA. Net earnings decreased by 6.8%. Maple Leaf did mention that trade volatility and acquisition costs negatively impacted its results.

The dividend is also beginning to look positive. After years of no dividend growth, Maple Leaf is finally starting to raise its dividend. The current yield is around 1.5% — not terribly large. But considering the payout ratio is less than 40% of earnings, there is most likely room to increase the dividend in the coming years.

Unfortunately, the biggest risk to both the business and the dividend is Maple Leaf’s debt. As is often the case with many businesses in this age of low interest rates and easy credit, Maple Leaf has taken on a significant amount of debt to fund its strategic transition and make acquisitions. While it may pay off in the future, leveraged companies always make me a little nervous. That being said, the debt appears to be used for a focused strategic purpose.

So, is Maple Leaf worth buying today? I like the fact the company is in an industry that provides a product that meets a basic need. The debt does worry me, but it is being put into strategic initiatives that could lead to growth in the future. The company relies on brand recognition to sell its products, and its brands are well known in Canada and around the world, so it does have a degree of earnings stability.

This is a company with strong brand recognition and potential for growth. The fact that it has started growing its dividend is also comforting. At the moment, Maple Leaf is still somewhat of a speculative buy that might be worth pursuing. Due to its debt, it may not provide the security you are looking for to insulate you from market volatility, but it may be a good long-term growth story.

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