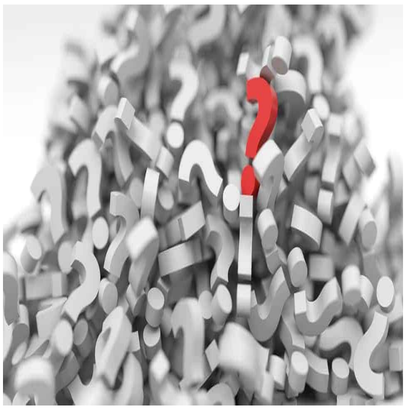

# Should You Buy This Dividend Stock Before its Q2 Earnings Release?

## Description

In early October, I'd discussed whether the United States-Mexico-Canada Agreement would have a positive impact on **Saputo** (TSX:SAP) stock going forward. Saputo leadership had advocated for a more liberalized trading system on the North American continent, something that U.S. dairy had been aggressively negotiating for.



In the end, the USMCA represents a compromise. And as is usually the case, both sides came away without much to celebrate. Canadian dairy farmers and advocates for supply management have been intensely critical of the result for threatening the stability of the domestic industry. Critics on the U.S. side accused the Trump administration of failing to extract adequate concessions, especially since the Trans-Pacific Partnership (TPP), a deal that Trump pulled out of shortly after entering office, potentially allowed for even greater access to the Canadian dairy market.

In 2017, Canada imported $636 million worth of U.S. dairy products. This was up only 1% from 2016. The new USMCA, which is yet to be ratified, will see Canada agree to provide new tariff rate quotas for U.S. dairy products. According to the Office of the U.S. Trade Representative (USTR) most will reach designated levels by year six of the agreement, after which quotas will be raised 1% annually for the next 13 years. To simplify, the United States will gain access to roughly 3.6% of the Canadian dairy market.

The USTR added that it will provide reciprocal access on a tonne-for-tonne basis for imports of Canadian dairy products. Increased access for Saputo should mean lower costs going forward, which is good news after the company has reported disappointing earnings in successive quarters.

In the first quarter of fiscal 2019 Saputo saw EBITDA drop 13.4% year over year to $307.5 million. Net earnings plunged 37.1% to $126 million. Adjusted net earnings were down 20% from fiscal 2018 Q1. New acquisitions were a drag on earnings with Saputo estimating that costs resulted in a negative impact of $34 million. On the plus side, Saputo increased its dividend payment by 3.1% to $0.165 per share, which represents a 1.6% dividend yield.

Saputo is expected to release its fiscal 2019 second-quarter results in early November. The fluctuation of the Canadian dollar in Q1 fiscal 2019 had a negative impact on earnings. The Canadian surged after the USMCA was announced but has since hit a five-week low on poor domestic retail sales and inflation dipping to 2.2%. Sustained weakness for the Canadian dollar may continue to hurt Saputo going forward.

Revenues in the U.S. sector rose 1.1% year over year to $1.595 billion in the first quarter of fiscal 2019. Two major acquisitions powered the increase, as did the higher average block market per pound of cheese and higher average butter market price per pound. Greater access to U.S. markets, assuming the USMCA is ratified by the end of 2018, should provide a boost to Saputo's U.S. sector in the future.

Saputo leadership may not have received exactly what it wanted with the USMCA, but the result should turn into a net positive for the company. The stock's price-to-earnings ratio comes in below the industry average, and now is an attractive time for investors to search for discounts. Saputo is worth consideration ahead of its Q2 earnings release.

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