Follow the Money: Insiders Are Buying the Dip on This Dividend Aristocrat

Description

Insider activity can be used as a gauge of insider sentiment. If there is considerable insider buying, then this is considered to be a bullish vote of confidence. The flip side is also true. Insider selling is a sign of bearish management sentiment.

It is important to note, however, that not all insider activity should be treated equally. The most important are trades on the open market that aren't tied to options or performance units. Independent buys or sells on the open market are the most relevant to insider sentiment.

One company that has benefited from bullish activity is **Saputo** (TSX:SAP). Saputo is one of the world's largest producer and marketer of cheese and dairy products.

On June 6, Saputo release fourth-quarter results that missed profit estimates. As a result, its share price tumbled and is now down approximately 13% from its 2019 high of $45.29 per share.

Significant insider buys

Insiders wasted little time taking advantage of recent price weakness. Three high-ranking company officials spent six figures buying up shares on the open market.

Carl Colizza, president and CEO, bought 7,200 shares at an average price of $39.61 for a total purchase price of $285,000.

Gaetane Wagner, chief human resources officer, added 3,750 shares to her position at an average price of $39.85. The total value of her purchase was $149,000.

Martin Gangon, chief acquisition and strategic development officer, spent $139,000, as he purchased 3,500 shares at $39.69.

These were the first purchases on the open market since early 2019. One could surmise that insiders were waiting for a dip, as they pounced all over the opportunity. This is certainly a bullish indicator.

The stock is oversold

Saputo's stock is currently in oversold territory. Ever since fourth-quarter earnings, its 14-day relative strength index (RSI) has been below 30. A stock trading at a 14-day RSI below 30 is an indicator that the stock is oversold. As such, investors can expect a short-term bounce.

At a current 14-day RSI of 25, Saputo is still seeing continued selling pressure. The company is trading at a discount to its five-year historical price-to-earnings, price-to-book and price-to-sales ratios — further reasons for which the company is a good buy at today's levels.

The reaction to Saputo's weak fourth quarter seems overdone. Despite the challenging market conditions (commodity prices, supply/demand balance, and increased competition), this is still a company that is expected to grow earnings by 20% on average through 2021.

Saputo is a serial acquirer and has made 31 acquisitions since its IPO in 1997 — six in the past two years. It remains a key long-term growth strategy for the company. For companies that employ this type of approach, there will be the occasional earnings bump.

One quarter does not make a trend, and the market's swift reaction has presented savvy investors with a great buying opportunity. Saputo is led by a high-quality management team with a strong history of execution.

Saputo is also a Canadian Dividend Aristocrat with one of the longest dividend-growth streaks in the country at 19 years long. The company is one of the most reliable dividend payers on the TSX Index. As of writing, the company yields 1.69%, which is the highest it has been since 2016.

Follow the money; now is the time to invest in this consumer defensive stalwart.

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mlitalien