Why Saputo (TSX:SAP) Stock Fell 12% in June

Description

Heading into the second half of 2019, Quebec-based dairy producer **Saputo** (TSX:SAP) is flat on the year thanks to a terrible June, which saw it lose 12% of its value.

The major culprit? It announced fourth-quarter results that were well below analyst expectations.

In the fourth quarter, Saputo's revenues were $3.2 billion — 18% higher than a year earlier thanks to $385 million in acquisitions during fiscal 2018. On the bottom line, Saputo had adjusted earnings per share of $0.32, $0.03 lower than a year earlier.

Analysts were expecting it to generate $3.3 billion in revenue with adjusted profits per share of $0.38. Saputo missed both badly.

For the entire year, Saputo had revenues of $13.5 billion — 17% higher than a year earlier — with adjusted earnings per share of $1.59 — $0.21 lower than in fiscal 2017.

As a result of the company's miss, CIBC analyst Mark Petrie cut his price target on the stock by $4 to $43, reducing its potential upside to 9%. The median target price for Saputo stock is $47, which was Petrie's previous target.

"Though commodity prices have generally rebounded nicely in 2019, Saputo is seeing issues across geographies that limit the benefit. In Canada and the U.S., lower volumes and increased competitive pressures are hurting realized margins," Petrie wrote June 6.

The analyst believes Saputo stock should be trading at 21 times the average of its 2020 and 2021 estimated earnings.

Although the company has made more than $3.3 billion in acquisitions in the past 24 months, some of them are bolt-on deals and others more transformative, investors are likely going to have to be more patient before seeing the upside from all of this deal-making.

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