This Turnaround Story Is Flying Under the Radar

Description

Shares of dairy giant **Saputo** (TSX:SAP) popped 4% on Thursday after its Q1 results topped expectations.

For the quarter, Saputo's earnings declined 3.7% to $121.4 million. But on an adjusted basis, earnings improved 2.9% to $164.9 million, or $0.42 per share, topping the average analyst estimate of $0.38. The company's revenue increased a solid 12% to $3.67 billion, in line with expectations of $3.7 billion.

In April, the company also completed its acquisition of United Kingdom-based Dairy Crest Group.

So what?

It's no secret that Saputo, as well as the dairy industry in general, have struggled in recent months. Back in June, the stock sank 12% after posting disappointing Q4 numbers. Although commodity prices have rebounded nicely in 2019, lower volumes, large dairy surpluses, and increased competition have weighed heavily on margins.

That's why Saputo's Q1 results are particularly encouraging.

While profits declined a touch during the quarter, competition has eased slightly, as several producers have either reduced production significantly or closed shop entirely. Moreover, some countries have even implemented regulations to curb production levels. In other words, Saputo is benefitting greatly from its competitive muscle and economies of scale at the moment.

Over the past two years, Saputo has made more than $3 billion in acquisitions.

"The re-balancing in (milk) solids drove up prices that were reflected in our first-quarter results," said Lino Saputo Jr. "This is the first time in 24 months that we have seen an improvement in the overall dairy situation."

In fact, management felt confident enough in the overall environment to boost its quarterly dividend 3%

to $0.17 per share. The stock now offers a decent dividend yield of 1.6%.

Now what?

Although Saputo isn't completely out of the woods just yet, yesterday's Q1 results suggest that the worst might be behind it. Furthermore, as the dairy market continues to improve, management continues to take a proactive approach to diversify the business.

While the company is clear that it will never get out of the dairy business, Saputo wants to target high-growth trends. Specifically, Saputo is very serious about entering the vegetable protein market and has already spoken to key players about a strategic path forward.

"If consumers want to have beverages made from plants, we will find a way to enter this category," Saputo said. "This can be through acquiring trademarks that are important to consumers or through partnerships with people who are already in the business and who do not have the capacity to manufacture."

While there are a ton of small alternative protein companies with strong brands, Saputo believes it has the processing and distribution muscle to help make a real dent in the market.

Given Saputo's stabilizing dairy fundamentals, long-term growth prospects, and improving dividend, I'd say the stock is a particularly timely value play. Even with yesterday's bump, the shares remain off 8% over the past three months.

Fool on.

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