Attention: Buy This 1 Stock Right Now

Description

If I were to compare **Saputo's** (TSX:SAP) stock performance this year to a cheese, I would compare it to an aged cheddar – sharp with a strong aftertaste.

After its stock dropped 12% in June following poor fourth-quarter results, those words aptly describe the situation. Needless to say, many investors were not happy.

Luckily for you, I believe this drop makes Saputo undervalued, giving investors an opportunity to buy shares of a reputable company at a discount. Saputo's shares are attractive based on its acquisition-centric growth strategy and increasing net incomes.

Acquisition-centric growth strategy

In the past two years, Saputo has acquired six businesses for a total purchase price of $3.6 billion. Its latest acquisition is U.K.-based Dairy Crest. The company paid USD$1.3 billion, which strengthens its foothold in Europe.

This acquisition comes less than a year after Saputo purchased one of the leading cheese companies in Australia, Murray Goulburn ("Murray") for USD$1 billion.

Despite Murray's revenues declining from USD$1.8 billion in FY 2017 to USD$1.22 billion in FY 2018, I am optimistic about the company's ability to generate a decent return on this investment due to the resources Saputo has at its disposal.

The last time Saputo made an acquisition in Australia was in 2014, when it engaged in a bidding war to acquire Warrnambool Cheese and Butter Factory. Since Saputo made the announcement, its shares have increased 69.84%!

That means an investment of $10,000 made in October, 2013 would be worth $16,894 today – *that's $6,894 in capital gains!*

Increasing net income

Saputo's acquisition strategy is clearly working for it, as its net income has steadily increased from $608 million in FY 2015 to $853 million in FY 2018 before dropping to $755 in FY 2019. From FY 2015 to FY 2018, net income increased every year for a compounded annual growth rate of 8.83%.

To some extent, a company's stock price is linked to its bottom line, which means a company that's able to generate increasing net income will ultimately be a more attractive investment — causing the stock price to increase.

Saputo is an example of this type of company, with its share price increasing 1345% since its IPO.

The acquisition strategy is also beneficial with regard to eliminating competition, as Saputo is purchasing many companies with which it was previously in competition.

Similar to how the telecommunications industry operates in Canada, minimal competition means that Saputo can charge higher prices, which drives the bottom line.

Bottom line

Despite being a manufacturer of cheese, there is nothing cheesy about Saputo's stock. In fact, it is arguably one of the best priced stocks on the **TSX** today.

Saputo's competitive advantage is based on its acquisition-centric growth strategy and its increasing net income. Saputo is focusing on acquiring other companies as a means of expanding its operations, which benefits investors as it's a quick way for Saputo to increase its global foothold.

Second, the company has demonstrated that it's able to use these acquisitions to increase its bottom line, ultimately leading to increased share prices.

You definitely want to check out Saputo.

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