



Maple Leaf Foods (TSX:MFI) Stock Fell 13.5% After Huge Earnings Miss

Description

Shares of **Maple Leaf Foods** ([TSX:MFI](#)) fell over 13.5% on October 30, 2019. The company announced its third-quarter results yesterday and reported sales of \$995.8 million with adjusted earnings of \$0.03. While sales rose 13.8% year over year, MFI's earnings fell by a substantial 89.7%.

Analysts estimated MFI to post revenue of \$982.92 million and earnings of \$0.31 in the September quarter. We can see that the stock is trading lower due to the massive earnings miss.

What drove sales for MFI in Q3?

Maple Leaf Foods is a Canada-based consumer protein company. It processes and produces meal kits, prepared meat, and value-added pork and poultry products. Maple Leaf Foods manages the production of live hogs. It has a hog production operation in 200 locations in Manitoba and Saskatchewan.

The company is now also focusing on the development of plant-based protein products to expand its product portfolio and drive sales higher.

MFI's meat protein business segment saw sales rise by 13.7% to \$953.3 million in the third quarter. Sales rose 4.8% after accounting for inorganic growth via acquisitions. Revenue in the September quarter was driven by the expansion of sustainable meat and strong demand from the United States.

The plant protein group consists of premium grain-based protein and vegan cheese products. These products are sold in retail, food service, and industrial channels. Sales in the plant protein group rose 30.1% to \$47 million in the third quarter. This segment accounted for just 4.7% of total revenue in Q3.

China pork ban severely impacted the bottom line

MFI attributed the earnings decline to the pork ban in China. A few months back, China temporarily banned Canada's pork products after it discovered several fake export certificates for these products.

Over 37,000 animals worldwide have died from exposure to the African Swine Fever (ASF) virus, according to Western Hog Exchange. The outbreak has been severe in China and other southeast Asian countries such as Vietnam. This has also led to volatility in hog prices throughout 2019.

MFI expects the ASF to lead the shortage of pork protein products in China. This will increase the pricing of lean and processed hogs at a global level. MFI is looking to mitigate the impact of China's pork ban by expanding into other markets and focusing on inventory-management strategies.

The profit margins for Maple Leaf Foods were driven lower by its increasing investment in the plant-based meat protein vertical. This segment is a [high-growth business and will continue to grow](#) at a rapid pace. **Beyond Meat**, a U.S.-based company, is a major player in the alternative meat segment. It went public earlier this year and is valued at 19.5 times forward sales.

What next for MFI and investors?

Analysts will revise MFI's stock price lower in the coming days due to underwhelming Q3 results. Prior to the earnings release, analysts had an average target price of \$40.8, which is 60% above the current price of \$25.

Now, the earnings decline for MFI in 2019 might be around 30% year over year. The bottom line will be under severe pressure until the supply for hogs stabilizes and is in line with demand.

The MFI stock is currently trading at a forward price-to-earnings multiple of 18, which is expensive when you consider the near-term risks. Investors need to tread cautiously with MFI.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MFI (Maple Leaf Foods Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date

2025/08/17
Date Created
2019/10/31
Author
araghunath

default watermark

default watermark