Should You Buy This Defensive Dividend Stock Today?

### Description

For a few years, I've stayed away from **Saputo** (TSX:SAP), believing it to be too expensive. However, its stock price has persistently climbed higher over time.



After consolidating in a sideways channel since mid-2016, the consumer defensive stock, a rarity on the Toronto Stock Exchange and a large cap to boot, finally piqued my interest.

Recently on Thursday, the company reported its fiscal second-quarter 2020 results, which were positive, as the market responded by pushing the stock 4.7% higher. Let's review its recent results.

## Recent results

During fiscal Q2, which ended on September 30, Saputo generated almost $3,666 million in revenue, up 7.2% versus the comparable quarter a year ago, and its adjusted EBITDA increased by 24% to $394 million.

The strong growth was largely due to the acquisition of Dairy Crest Group in April. Excluding the acquisition, revenues and adjusted EBITDA would have only increased by 1.7% and 13%, respectively.

Net earnings climbed 7.2% to $175 million. On an adjusted basis, earnings growth of 13.9% was even more stellar. Adjusted earnings per share increased by 11.9% to $0.47.

In the first half of the fiscal year, revenue and adjusted EBITDA increased by 9.7% and 20.4%, respectively. Again, they were positively impacted by the Dairy Crest acquisition. Net earnings rose 2.5% to $296 million. Adjusted earnings-per-share growth of 7.2% was better.

## Safety and valuation

Saputo stock is a relatively safe investment given the consumer defensive sector it's in. Since 2001, it has delivered annualized returns of about 13% per year, beating the market. Since 2008, the stock has compounded total returns at about 10% per year due partly to starting at a full valuation of about 22.3 times earnings at the time.

At just under $40 per share at writing, the stock trades at a seemingly high price-to-earnings ratio of 24.2. However, the company has increased its earnings by 7.2% year to date, which makes the valuation reasonable in a late economic cycle. For instance, there are other North American consumer defensive stocks that are trading at 22-24 times earnings with slower growth rates.

## Investor takeaway

Going forward, Saputo's growth will rely on its ability to find fitting acquisitions, buy them at the right price, and integrate them without hiccups.

Saputo stock has increased its dividend for 19 consecutive years with a five-year dividend-growth rate of 8%. That said, its dividend hikes have slowed dramatically in recent years with the last dividend increase of only 3% in August.

After all is said and done, I think it's more prudent to wait for a bigger margin of safety before buying the defensive stock that only yields 1.7%.



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