RRSP Investors: AVOID This 1 Dividend Stock!

Description

Rogers Sugar (TSX:RSI) is engaged in the refining, packaging and marketing of sugar and maple products through its brands Lantic, Rogers and The Maple Treat.

The majority of the company's revenues come from Canada at 77% followed by the United States at 14%, Europe at 4% and Other at 5%.

Rogers Sugar reports a market capitalization of $515 million with a 52-week low of $4.54 and a 52-week high of $6.16.

Intrinsic price

Based on my calculations using a discounted cash flow (DCF) valuation model, I determined that Rogers Sugar has an intrinsic value of $2.60 per share.

Assuming less than average industry growth, the intrinsic value would be $2.47 per share and higher than average industry growth would result in an intrinsic value of $2.73 per share.

At the current share price of $4.91 at writing, I believe Rogers Sugar is significantly overvalued. Investors looking to add a sugar company to their RRSP should avoid Rogers Sugar.

Given the shift of consumer preferences from less refined and processed products to more organic and raw foods, I believe Rogers Sugar is in for precarious times ahead.

Rogers Sugar has an enterprise value of $603 million, representing the theoretical price a buyer would pay for all of Rogers Sugar' outstanding shares plus its debt.

One of the concerning things about Rogers Sugar is its leverage with debt at 38.6% of total capital versus equity at 61.4% of total capital.

Financial highlights

For the fiscal year ended September 28, 2019, the company reports a mediocre balance sheet with $110 million in negative retained earnings, down from $63 million in negative retained earnings as at FYE18.

This is not a good sign for investors, as it indicates the company has had more years of cumulative net loss than net income.

Rogers Sugar also reports cash and equivalents of $284,000 on $25 million of short-term debt obligations, suggesting that the company doesn't have enough cash on hand to cover its current debt liabilities.

Although this isn't an issue given the company's $265 million credit facility (of which 67% is currently utilized), I would like a company with this history to have enough cash on hand to cover its short-term debt obligations.

Revenues are down slightly year-over-year from $805 million to $794 million (-1.4%) for gross profit of $123 million (gross profit margin of 15.4%).

Pre-tax net income for the period was adversely affected by a $50 million impairment in the company's maple products segment. Adjusting for this, the company reports 2019 pre-tax income of $56 million compared to $67 million in 2018 (-16.3%).

Rogers Sugar has a normal course issuer bid in place whereby it purchased and cancelled $640,000 worth of shares in 2019 (down from $4 million in 2018).

It continues to invest in growing the business as suggested by the increase in capital expenditure spending from $23 million in 2018 to $29 million in 2019 (+15%).

Rogers Sugar is a dividend paying entity with a current dividend yield of 7.38%

Foolish takeaway

Investors looking to buy shares of a sugar manufacturing company should avoid Rogers Sugar, despite what fellow Fool Nikhil Kumar argues.

The company reports negative retained earnings, decreasing revenues year-over-year and debt at 38.6% of capital, which suggests high leverage.

This is partially offset by continued profitability, the execution of its normal course issuer bid and increases in CAPEX spending, however, at the current price of $4.91 compared to its intrinsic value of $2.60, I believe Rogers Sugar is significantly overvalued.

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