This “Boring” Stock’s Long-Term Returns Will Make Your Jaw Drop

Description

Often, I’m asked for my opinion on the market or about individual stocks to buy. And I always tell folks the exact same thing.

The way to get rich, I say, is to load up on excellent companies with solid growth prospects, diversify the portfolio, so one bad pick doesn’t cause a major disaster, and slowly reinvest dividends over time. The hard part, I always say, is the waiting. You’ll be tempted to tinker, but that’s usually a bad idea.

This often isn’t what these people want to hear. They want a can’t-miss stock tip — something that will double or triple their money overnight. Blue-chip stocks are boring. They crave more excitement.

What they’re missing is some of Canada’s best blue-chip stocks have generated some jaw-dropping returns, the kinds of results that have made long-term shareholders quite wealthy. Let’s take a closer look at one such stock, a company that gets almost zero attention from anyone.

The milk business?

There is nothing exciting about **Saputo** (TSX:SAP) or its business.

The company’s growth-by-acquisition model has been working well for decades now. First, it consolidated the dairy business in Canada, acquiring milk, yogurt, and cheese plants across our nation. Next were acquisitions in the United States. The company has switched its focus to international acquisitions these days, making deals to acquire assets in places like Argentina, Australia, and, most recently, the United Kingdom.

Saputo’s strategy is always the same. First it makes the acquisition. Then, the managers of the newly acquired asset work with experts in Montreal to increase efficiency and boost sales. While all this is happening, the financial team takes earnings from the rest of the company and puts them towards paying off debt. The balance sheet is improved, and the company gets ready to make further deals.

Needless to say, this strategy has paid off over the long term. In 2001, thanks to acquisitions made that year, Saputo did a little over $2 billion in revenue and had a bottom line of $110 million. In its fiscal 2019, the company generated some $13.5 billion in revenues and profits of more than $750 million. And 2019 was a poor year; analysts predict the bottom line will increase to between $800 and $850 million in 2020.

Stunning long-term returns

This strategy has translated into excellent long-term returns for the stock, including its largest shareholder. The Saputo family owns a 32% stake.

Over the last 20 years, including reinvested dividends, Saputo shares have posted a compound annual growth rate of 14.05%. That result absolutely killed major stock indices around the world, including the **TSX Composite** and even the **S&P 500**.

To put that kind of long-term return into perspective, that's enough to turn a $10,000 original investment into something worth $138,845. And even though Saputo has a somewhat lacklustre yield of just 1.7%, the investment has grown into something that spins off a decent amount of passive income.

The opportunity

For the first time in a long time, Saputo shares have been building a base. Certain acquisitions haven't made an immediate impact to the bottom line, which has disappointed investors.

Three years ago, Saputo shares traded hands for approximately $46 each. They've slowly decreased and currently trade hands at under $40 each.

At some point, the company's earnings will recover, and shares will start marching higher again. It'll go on the acquisition trail again and the process will start all over again. Remember, milk is still a local market. Saputo has plenty of opportunity to gobble up assets.

Finally, Saputo is one of Canada's best dividend-growth stocks. It has hiked the dividend each year since 2001, and its growth model and low payout ratio make me confident it can continue this impressive streak for decades to come.

The bottom line

Saputo is an excellent growth stock that should see its shares march higher, as it integrates its latest acquisition. You don't want to be left on the sidelines when this happens.

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