



Say Cheese: This TSX Stock Can Gain Over 10% in 2020

Description

Milk and cheese are two essentials in almost every home in the world. It makes sense to look at companies that operate in this sector. Whether or not 2020 is turbulent, it is unlikely that people will stop eating their favourite dairy products.

Saputo ([TSX:SAP](#)) produces, markets, and distributes a wide array of dairy products, including cheese, fluid milk, extended shelf-life milk & cream products, cultured products, and dairy ingredients. Saputo is one of the top 10 dairy processors in the world, a leading cheese manufacturer and fluid milk and cream processor in Canada, the top dairy processor in Australia, and the second largest in Argentina. In the U.S., Saputo ranks among the top three cheese producers. In the United Kingdom, Saputo is the largest manufacturer of branded cheese.

The numbers game

Saputo published its results for the third quarter of fiscal 2020, which ended on December 31, 2019. Revenues came in at \$3.89 billion — an increase [of \\$313.6 million, or 8.8%](#), from the same period in 2018. Adjusted EBITDA was \$417 million, an increase of \$95.8 million, or 29.8%. Net earnings totaled \$197.8 million. Revenues from the U.S. increased by \$170.2 million, and Europe sales were up by approximately \$196 million.

Saputo's acquisitions pulled their weight in 2019. For the nine-month period ended December 31, 2019, revenues totaled \$11.22 billion, an increase of \$959.4 million, or 9.3%, as compared to \$10.26 billion for the same period last fiscal year.

Revenues increased due to the contribution of recent acquisitions, including \$534.5 million from the Dairy Crest Acquisition for the 37-week period ended December 31, 2019. The specialty cheese business of Lion Dairy & Drinks Pty Ltd (Specialty Cheese Business Acquisition) in Australia, acquired on October 28, 2019, contributed positively to revenues and adjusted EBITDA for nine weeks in the quarter.

Higher international selling prices of cheese and dairy ingredients positively impacted adjusted

EBITDA. The combined effect of a higher average block market per pound of cheese and the fluctuation of the butter market price per pound increased revenues by approximately \$277 million for the nine months of 2020.

The board of directors approved a dividend of \$0.17 per share payable on March 13, 2020, indicating a forward yield of 1.7%.

Away from dairy and dealing with a virus

As more consumers begin to move away from cow-based products due to health and environmental reasons, Saputo has decided to close down two plants in Canada. Saputo CEO Lino Saputo Jr. has said that the company will look at an acquisition of a plant-based milk business to meet growing demand for plant-based beverages.

However, while Saputo has been hit by lower numbers in China thanks to the Coronavirus, Saputo Jr. doesn't see this as a long-term pushback. He expects numbers and consumption to go back to pre-virus levels once the threat of Coronavirus goes away. The company is exporting products to China from different locations, and while there are delays at some ports, no batch has returned.

Analysts expect Saputo to hit an average price target of \$45.44 — upside of just over 10%. Saputo's in a business where Chinese consumption will only increase once the threat of the virus dies. And unless the rest of the world collectively decides to stop eating cheese, this number looks pretty good.

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