Canadian Investors: You Can’t Miss This Solid Defensive Stock

Description

Many investors have been buying the dip amid this brutal market crash. However, picking out quality stocks from the trash has become even more important these days. Almost all stocks look attractive when compared to their record highs that were achieved early this year. Investors should note that cheap can become cheaper, and it is important to focus on long-term value generation.

Maple Leaf Foods

One such stock that looks well placed after the market crash is the food product company **Maple Leaf Foods** (TSX:MFI). The stock has fallen more than 20% since mid-February after the virus outbreak. While the fall looks relatively less brutal, it has dragged the stock to almost five-year low levels. Thus, it poses a worthwhile opportunity for long-term investors.

I have considered the stock as a defensive based on its non-cyclical business and consistent dividends . However, I think it is well placed to reap significant returns and outperform growth stocks in the long term.

Maple Leaf Foods is a $2.7 billion company and offers food products under brands like Maple Leaf Prime, Maple Leaf Natural Selections, Schneiders, Schneiders Country Naturals, Mina, etc.

Plant-based meat: A growth engine

In 2019, Maple Leaf reported approximately $4 billion in revenues, which was more than a 12% increase year over year (YoY). However, its net income for 2019 fell notably due to strategic investments in plant protein vertical. Analysts expect its earnings to increase by approximately 20% YoY and 30% YoY in 2021.

The company is aggressively expanding its plant-based meat business, as it offers huge growth potential and high margins. In Q4 2019, revenues from the plant protein vertical increased a notable 27% YoY.

Industry experts are anticipating solid growth in plant-based meat products globally. Maple Leaf intends to invest approximately $700 million in the London poultry facility and the Shelbyville plant protein facility this year. While these could take a couple of years to start operations, one would expect the company reaching new highs with increased capacities and efficiency improvements.

The company’s plans to cater to changing customer preferences will be rewarding and will bode well for its bottom line. Its partnerships with quick-service restaurants and new product launches will likely continue to drive growth in the coming years.

Valuation and dividends

The recent downfall has made Maple Leaf Foods stock look attractive in terms of valuation. It is trading 25 times its estimated earnings for the next 12 months. Its five-year historical average valuation comes around 32 times, which implies that the stock is trading at a discount and has a potential for further gain. Also, investors generally do not mind paying higher for high-growth companies.

MFI stock is currently trading at a dividend yield of 3.1%, which is marginally lower than the broader markets. However, what’s striking is its dividend growth. In the last five years, the company managed to increase dividends by almost 30% compounded annually. Delivering stable and predictable dividend growth is one of the key priorities for the company. Thus, one can expect above-average dividends from the company in the long run.

This is indeed a challenging time for Maple Leaf Foods amid the pandemic and the lockdowns. However, the virus outbreak has hardly spared anyone. Even though Maple Leaf’s couple of quarters get hammered due to the ongoing weakness, it seems very well placed for the long term. Its innovative product range and significant market share will likely continue to gain significant benefits for the company and its investors.

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