



Is Maple Leaf Foods (TSX:MFI) Stock a Buy After Q1 Earnings?

Description

Protein products giant **Maple Leaf Foods's** ([TSX:MFI](#)) stock price rose over 3% in early trading on Wednesday, as investors appreciated the company's [latest first-quarter financial results](#), which were released before the market open.

The latest financials confirm how strong a [defensive](#) play Maple Leaf stock is during the COVID-19 pandemic, even as the new plant-based protein division, which could challenge **Beyond Meat** at its game, drains cash flow.

Maple Leaf reported a 12.8% year-on-year growth in revenue to \$1.02 billion for the quarter ending March this year. Adjusted operating earnings increased by 7.3% and adjusted earnings per share at \$0.21 were 5% higher than last year's numbers.

However, net earnings were a loss of \$3.7 million (or \$0.03 per basic share), as non-cash fair-value losses in biological assets and a \$36 million loss on derivative contracts gobbled accounting profits.

Strong revenue performance during a pandemic

Maple Leaf has mastered the art of efficiently supplying consumers with tasty meat protein foods for decades. Its old meat protein products segment continues to generate positive growth with a strong 12.7% sales growth over last year. Increased exports to China and Japan, a favourable mix towards premium-priced offerings, and stronger volumes combined to deliver a good quarterly performance.

Perhaps the latest growth was due to pantry loading, but the company's revenue growth trajectory has been largely positive over the past five years.

Watch the new business within the business

The company's strategy to rapidly transform its product portfolio to include a plant-based protein foods division should attract investor attention. The plant protein segment generated a 25.9% year-over-year

revenue growth, or double the growth rate of the legacy meats division.

Owning Maple Leaf Foods stock today gives you a stake in two distinct businesses — a legacy meat protein business that is steadily growing with healthy profit margins, and an exponentially growing plant protein business that's currently trendy and promises to give Beyond Meat a run for its money.

As the plant protein segment grows to command a significant portion of the company's overall sales, Maple Leaf stock should attract higher valuation multiples, perhaps even a proportionate Beyond Meat valuation premium.

Remember to watch cash flow

Maple Leaf continues on a strong drive to build its businesses, and the company has since increased its net debt position by 66% to \$640.6 million over the past year. This was done primarily to fund growth capital expenditures, with revised capital spending expected at \$650 million for this year.

Current strategic initiatives include investments in an Ontario poultry production facility to increase handling capacity and the construction of a plant protein production facility in Indiana.

These are the necessary capital outlays for growth. However, higher leverage on the balance sheet will require increased cash flow generation capacity to service debt repayments.

Cash flow from operations was negative for the first quarter due to higher working capital investments and derivative transactions. Free cash flow was also negative due to ongoing capital projects.

I hope the COVID-19 pandemic won't cause any further construction delays. The processing should become operational early to enable quicker recoupment of costs and cash flows.

Foolish takeaway

Maple Leaf stock is a great candidate for a defensive play during the COVID-19 pandemic and the coming recession. I have high hopes for the emerging and fast-growing plant protein business, too.

The company is also a reliable dividend-growth stock after six consecutive years of regular payout increases. A 10% dividend increase for 2020 follows another 11.5% increase in 2019. The \$0.16-per-share quarterly dividend now yields a respectable 2.4% annually.

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