



Why Maple Leaf Foods (TSX:MFI) Stock Fell After Reporting Its Third-Quarter Earnings

Description

Yesterday, **Maple Leaf Foods** ([TSX:MFI](#)) reported an unimpressive [third-quarter performance](#). Amid the supply chain disruptions due to the pandemic, its plant protein segment reported lower-than-expected sales growth. Further, the management lowered its 2020 outlook for the protein segment, which weighed heavily on the company's stock price.

On Tuesday, Maple Leaf Foods's stock price fell to a low of \$23.40 before closing at \$23.52, representing a 4.7% fall from its previous day's closing price. Let's look at its third-quarter performance in more detail.

A rising top line

During the third quarter, Maple Leaf Foods's revenue grew 6.2% on a year-over-year basis to \$1.06 billion. The growth in both meat protein and plant protein segments drove the company's revenue.

The meat protein segment's revenue grew 6.4% to \$1.01 billion, driven by strong demand from its retail channel, growth in sustainable meat and branded products, and increased exports to the United States and Asian markets.

Its revenue from the plant protein segment also grew 9.3%, driven by the expanded distribution of new products and increased volumes of its existing portfolio. However, the revenue growth was significantly lower than the company's expectations of 30% growth for this year. The company's management has blamed production issues and the pandemic for the weak performance.

However, the management has stated that they have taken immediate corrective measures and expect improvements in the fourth quarter.

Expansion of EBITDA margin

Maple Leaf Foods's adjusted EBITDA grew 54.7% year-over-year to \$82.6 million, driven by growth in its meat protein segment partially offset by continued strategic investments in its plant protein segment.

The meat protein segment posted an adjusted EBITDA of \$122.6 million, representing year-over-year growth of 43.6%. Its adjusted EBITDA margin also improved by 3.1% to 12.1%. The increase in value-added products, investments in brand repositioning, sustainable meat development, and cost-optimizing initiatives have expanded the segment's EBITDA margin.

During the quarter, the adjusted EBITDA losses for the protein meat segment increased by over 25% to \$39.6 million. Lower gross margins and increased advertising, promotion, and marketing expenses dragged the company's adjusted EBITDA down. The management also expects its plant protein segment's gross margins to be under pressure for the next few quarters due to its sales-building initiatives.

Liquidity and outlook

Maple Leaf Foods generated \$60 million of free cash flows for the quarter. At the end of the quarter, its cash and cash equivalents stood at \$178.2 million. Further, the company has access to \$1.3 billion of credit facility. So, the company's liquidity position looks healthy.

Despite the weak performance during the quarter, the long-term growth prospects for its plant protein segment remain intact. With increased awareness about healthy and sustainable food products, the demand for plant protein products has been rising. The management hopes to make the plant protein segment into a highly profitable \$3 billion business over the next ten years.

Meanwhile, the meat protein segment continues to provide much-needed stability to the company's earnings by improving its adjusted EBITDA margins consistently for the last four quarters. The management is hoping to improve its adjusted EBITDA margin for the segment to 14%-16% by 2022. So, the company's growth prospects look healthy.

Bottom line

After yesterday's decline, Maple Leaf Foods has lost over 13% of its stock value this month. After the steep fall, the company's valuation looks very attractive. It currently trades at a forward enterprise value-to-sales and forward price-to-earnings multiple of 0.9 and 19.8, respectively.

Given its strong growth prospects, healthy liquidity position, and attractive valuation, [I am bullish on Maple Leaf Foods](#).

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