Is This Canadian Cash Cow Worth Milking?

Description

Saputo (TSX:SAP) has been in the news lately, and mostly for good reasons. In the last few months, this Canadian dairy stock has managed to soar 11%. Regardless, some investors are wary of this stock, as diary space continues to be quite inconsistent, and the ROE of this stock hasn't been that impressive.

Here's why I think investors may want to pursue other opportunities right now.

Fundamentals don't look great right now

Saputo is a company that has shown long-term stability and growth potential. Much of this growth has come via acquisitions in recent years. However, of late, it appears the outlook for this stock may not be as great as it once was.

Why's that?

Well, for starters, Saputo's earnings have not been that great of late. The company's earnings have stagnated, and growth has been difficult to come by in recent years. Factors like uncontrollable industry challenges have plagued the dairy sector overall. And these challenges are at least partly due to the supply management system set up in Canada.

Profit margins for Saputo and its peers remain razor thin. And supply chain issues have begun to surface, which have further eroded my outlook for margin expansion for this stock over the medium to long term.

While many believe Saputo is well positioned to grow its earnings, the company's outlook remains uncertain right now. Intense competition in many of Saputo's core business segments continues to put downward pressure on margins. And for stocks like Saputo, investors pay closer attention to the fundamentals than with other stocks in the market. (Meme rally, anyone?)

Both earnings and dividend yields fail to impress

The ROE of Saputo hasn't been impressive. Then again, the entire average of this industry fails to impress a lot of investors.

While some investors may still want to hold onto this dairy play, the poor and uneventful track record of this stock for the last five years speaks volumes. Investors who have held their capital in Saputo stock have seen their capital deteriorate over the long term. And the company's relatively meagre dividend yield has done little to assuage this stock price decline.

Accordingly, until the fundamentals change with Saputo, I think this is a stock to be avoided. From an operational standpoint, there are much better options in the market today to pursue.

Saputo's core brands and strong market position do hold value. But for investors looking to optimize their returns, I believe capital invested in Saputo could be used better elsewhere.

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