1 TSX Consumer Staple Stock Beginners Should Buy and Hold Forever

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

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Although everyone likes to find a good undervalued stock, sometimes it is better to buy the stock of a great company at an okay price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, wide economic moats, solid financial ratios, and good management.

Saputo

Saputo (TSX:SAP) is Canada's largest producer and distributor of packed food and dairy products domestically and internationally, with more than two-dozen brands under management.

The company stands to benefit from rising food prices.. As a provider of essential foodstuffs, SAP can raise its prices and pass costs along, allowing it to maintain margins and stay profitable.

Technicals wise, SAP has a beta of 0.57, making it roughly half as volatile as the overall market. The company also pays a dividend of $0.72 per share, giving it a modest yield of 2.31%.

Valuation

SAP is solid enough of a company that I would not worry about trying to time a good entry price. However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price.

Currently, SAP is extending gains since Monday and is currently trading at $30.19, which is far below the 52-week high of $42.42. In the current fiscal quarter, SAP's 52-week low is $26.21. We see that SAP's current price is in the mid-range, which reduces the chance that it is overvalued.

SAP currently has a market cap of $11.21 billion with approximately $38.81 billion shares outstanding. This gives it an enterprise value of $15.29 billion with a enterprise value to EBITDA ratio of 11.66, which is similar to peers in the consumer staples sector.

For the past 12 months, the price-to-earnings ratio of SAP was 24.17, with a price-to-free cash flow ratio of 76.91, price-to-book ratio of 1.73, price-to-sales ratio of 0.78, and book value per share of approximately $15.68. These metrics show that SAP appears to be fairly valued.

SAP has a Graham number of 19.89 for the last 12 months — a measure of a stock's upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, SAP does not look undervalued.

Is it a buy?

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Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position if they have the capital. SAP provides essential products and services for the Canadian economy and stands to benefit greatly from rising food prices. Buying now could be a great defensive play against high inflation.

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