

Saputo looks to expand as global player in dairy products industry
(The Canadian Press – Canada)

Dairy products maker Saputo Inc. (TSX:SAP) plans to continue expanding as a global player as it reported a second-quarter profit of \$62.5 million - or \$65.5 million excluding a one-time tax charge.

That compares with year-ago earnings of \$58.3 million. However, shares closed lower Tuesday on the Toronto Stock Exchange at \$53.10, down \$4.01 or seven per cent.

Chairman Lino Saputo recalled problems in the global dairy market during a conference call, but insisted the company is positioned to succeed.

"We intend to pursue our expansion and become an even stronger player in the global dairy industry," said Saputo during a conference call with analysts.

Quebec-based Saputo employs 8,600 people in 47 plants around the world. Its dairy-focused brands include Saputo, Alexis de Portneuf, Armstrong, Baxter, Dairyland, De Lucia, Dragone, Stella and Vachon.

As one of the top 20 dairy processors in the world and the largest in Canada, Saputo is among the top five cheese producers in the United States, the third-largest dairy processor in Argentina and the largest snack-cake manufacturer in Canada.

He also said he believes the industry is headed for consolidation and "once that consolidation starts, we will be at the forefront of it."

Saputo added the company is in an "excellent financial position."

"Our debt level is low and our cash flows are strong."

Saputo said in chasing the expansion goals, the company will remain true to its corporate character.

"We must remain flexible and open to the evolving dynamics in every market in which we operate," he said.

"We're a large company, we remain entrepreneurial as we attempt to seize all opportunities to add shareholder value."

The company said its earnings amounted to 60 cents per share diluted, compared with 56 cents in the year-earlier period.

It also announced it will issue a special all-stock dividend that will effectively split its shares on a two-for-one basis to be paid Dec. 21 to shareholders of record on Dec. 10.

Revenues for the three months ended Sept. 30 jumped 30 per cent to \$1.3 billion from \$994.1 million on the strength of sales by Saputo's U.S. dairy products division.

That was due largely to Saputo's acquisition of the Land O'Lakes West Coast industrial cheese business, "a higher average block market per pound of cheese, increased selling prices and higher sales volume," the company said in a release.

Saputo said the company is looking at improving margins through operational efficiencies, driving more volume through the plants and producing value-added products.

The increasingly strong Canadian dollar, however, ate into Saputo's revenues during the period to the tune of \$29 million, the company said.

Analyst Jessy Hayem of Desjardins Securities said in a report that Saputo's "results reported were weaker than our lowest on-the-street estimates.

"Canada and other dairy segment profitability improved to a lesser extent than anticipated," the report said.

"We suspect that we are starting to lap prior-year rationalization benefits, in addition to the fact that Argentina and Europe also contributed less this quarter. As for U.S. profitability, it was also lower than anticipated."

During the conference call, it was pointed out that the performance of the company's German operation was below expectations in the second quarter.

Saputo noted that the European dairy industry is suffering from a low supply of milk, which affects prices. He said price increases to customers are not keeping pace with price increases that Saputo is paying and Saputo will have to raise its prices.

"We need to sell those products at a profit," he said.