



DSR STOCK CARD

10/14/2022

LASSONDE INDUSTRIES (LAS.A.TO)

Business Model

Lassonde Industries Inc is engaged in the development, manufacturing, and marketing of ready-to-drink fruit and vegetable juices and drinks. It also acts as a producer of store brand shelf-stable fruit juices and drinks in the United States and as a major producer of cranberry sauces. The company operates through a single segment, being the development, manufacturing, and marketing of a wide range of ready-to-drink juices and drinks, frozen juice concentrates, and specialty food products as well as the importation, packaging, and marketing of selected wines from several countries of origin. Lassonde has a presence in Canada and the United States. It earns the majority of its revenue in the United States.

The Company in a Nutshell

- LAS is a rare Canadian company competing in the consumer staples sector.
- LAS has successfully grown through acquisitions over the past decade.
- Unfortunately, the company struggled to maintain its margins over the past few years.

Investment Thesis

LAS' wide variety of brands enables it to have an important presence in grocery stores. There aren't many consumer products in Canada with such strong fundamentals. LAS will continue to rely on many of its healthy product offerings to generate cash flows for future acquisitions. LAS recently completed a cost reduction program which should result in margin expansion. Earnings are under significant pressure as high transportation costs in the US are hurting the company's margins. Revenue growth has been mostly supported by currency tailwinds and the acquisition of OBB. Lassonde seemed to be a great opportunity for some time, but the company's inability to generate strong profits is disappointing.

VALUATION

Dividend growth rate 1-10 yr.: 3%

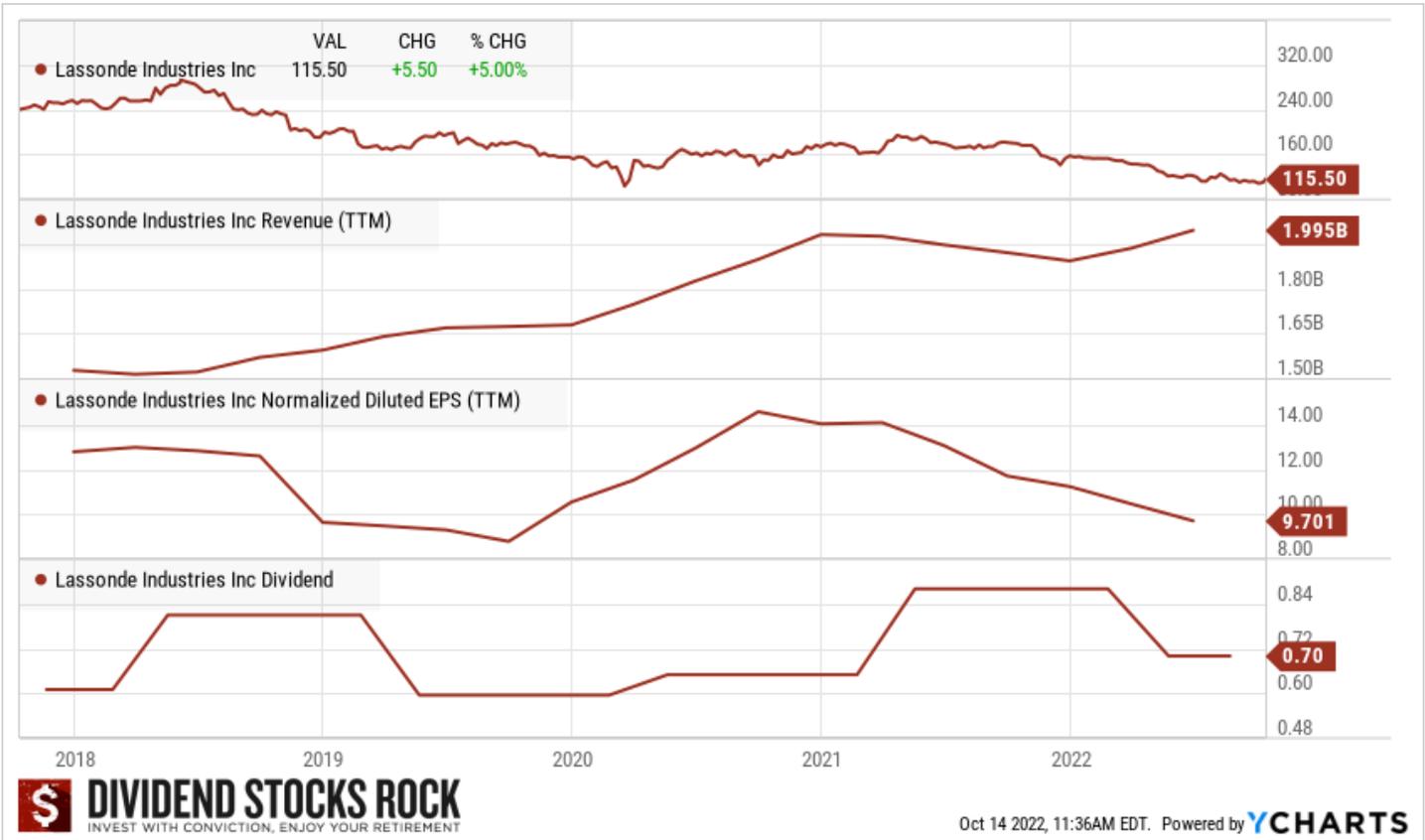
Terminal dividend growth rate: 3%

Margin of Safety	Discount Rate (Horizontal)		
	8.00%	9.00%	10.00%
20% Premium	\$69.22	\$57.68	\$49.44
10% Premium	\$63.45	\$52.87	\$45.32
Intrinsic Value	\$57.68	\$48.07	\$41.20
10% Discount	\$51.91	\$43.26	\$37.08
20% Discount	\$46.14	\$38.45	\$32.96



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Potential Risks

Lassonde is competing against major brands such as Minute Maid (Coca-Cola) with much larger budgets. This could affect its sales over the long run as it can't really compete with them. The fact that LAS has entered more significantly into the US market demonstrates that management isn't afraid of competing, but this confidence could penalize them if it turns into arrogance. Higher transportation costs and the costs of raw materials hurt Lassonde's margins and make them less competitive. Let's hope that their cost control project will stabilize their margins. Lassonde's growth potential remains with more acquisitions, but the company may end up overpaying or having integration problems along the way.

Dividend Growth Perspective

The company currently pays a variable dividend. In its financial statements, LAS states that the company aims to pay 25% of its EPS from the previous year as a dividend. Since the dividend is paid according to EPS fluctuations, it will fluctuate each year. Therefore, the company reduced its dividend to reflect 25% of the 2018 EPS. What seemed to be continuous dividend increases over the past 10 years was in fact a variable dividend paid in line with EPS increases. The company increased its dividend once again in 2020 and 2021, but recently reduced it back to \$0.70/share, following its 25% payout rule.