

PALOS

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Palos Weekly Commentary

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Palos Funds

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Maple Leaf: A Plant-Based Protein Company?

If you never heard of Beyond Meat or Impossible Foods, you've probably been living under a rock. Plant - Based Protein (PBP) has been making a lot of noise in the food industry and its popularity is growing rapidly. The fast food and grocer industries are all entering the market. There are many indications that meat alternatives will be a game-changer for the food industry. According to numerous reports, spending on meat alternatives is set to rise more than tenfold in the next decade.

Maple Leaf Foods Inc (TSX: MFI) is well-known as a meat company, but investors seem to be ignoring MFI's goal of becoming the most sustainable protein company on earth. This vision includes PBP, and they are investing millions in this new market. MFI is already a leader with their PBP brands. Their brands are already #1 and #2 in the fast-growing refrigerated plant-based meat alternative category. Their #1 brand is Lightlife and #2 is Field Roast. The company has been experiencing double-digit growth rates in PBP products. They currently have two facilities located in Massachusetts and Washington and they will reach full capacity by 2020. That is why MFI is investing 310M USD in a PBP facility in Indiana and investing 26M USD in its existing network to increase capacity and efficiency. Management is aiming for 280M CAD in revenue in PBP in 2020 and 3.0 billion CAD in 10 years. The company has been experiencing an approximate CAGR of 35% in PBP, with better margins than the traditional protein business.

The question is: how do you value the PBP business? If I use Beyond Meat or Impossible Foods' multiples, I get a ridiculously large number. So I decided to be very conservative and use a multiple of 4x 2020E revenue. This gives me \$9 per share, and using 6x 2020E revenue, I get \$14 per share. For the traditional business, I'm using 10x EBITDA and I'm getting \$33 per share after debt. The stock is trading at \$29.50, so at current prices, you're basically getting the PBP business opportunity for free.

Disclaimer: Palos Funds are shareholders of MFI.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.99	8.65%
Palos Equity Income Fund - RRSP	PAL101	\$5.45	7.37%
Palos Merchant Fund L.P. (Dec 31, 2018) ²	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$6.76	-4.41%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) ³	PAL300	\$9.00	-4.27%
S&P TSX Composite (Total Return with dividends reinvested)			17.15%
S&P 500 (Total Return with dividends reinvested)			18.31%
S&P TSX Venture (Total Return with dividends reinvested)			-0.98%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.58%
Canadian Government 10-Year			1.31%
Crude Oil Spot			US \$52.59
Gold Spot			US \$1,506.10
US Gov't10-Year/Moody BAA Corp. Spread			231 bps
USD/CAD Exchange Rate Spot			US \$0.7500

¹ Period ending October 9, 2019. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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