Kellogg Stock Barely Flinches After Lawsuit

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More and more consumers are beginning to wise up to marketing in the food industry – especially when it comes to the use of the word "natural."

If you're unaware, the FDA still hasn't been able to nail down what a natural ingredient actually consists of.

So for now, the FDA won't stop a company from slapping "natural" on the product label as long as the food doesn't contain artificial flavors, man-made substances, or added colors.

That's all it takes!

It shouldn't come as a shock that companies across the food industry are taking advantage of this loophole. And many foods – that most consumers would consider totally unnatural – are being packaged as "all natural."

Of course, this ruse couldn't last forever.

Although many industry players have come under fire for misusing the term, not all companies are created equal. In fact, one remains perfectly primed for steady returns.

Kellogg Company (K [1]), for instance, recently received some bad press because of its use of "all natural" branding on its Kashi products.

Last month, the company agreed to stop using the term – and it'll pay $5 million to settle the lawsuit.

Now, many believe Kellogg's decision will set off a chain reaction throughout the food industry, with companies rebranding their foods before legal action comes their way, too.

What you should be interested in, however, is how Kellogg's stock handled the fallout.

Unparalleled Market Dominance

Amazingly, instead of taking a tumble, the stock only shot *higher* after it announced the settlement. (It's come down a bit recently, but it's still trading slightly higher than it was before the news hit.)

How was the stock able to weather the storm?

Simple…

Kellogg boasts eye-popping fundamentals that not only kept it afloat when disaster struck, but will also send shares higher in the weeks and months to come.

Consider these two factors in particular…

Factor #1: Killer Product Lineup. Kellogg's product portfolio is loaded with some of the most respected and battle-tested brands on the planet. From Frosted Flakes, to Pop-Tarts, to Eggo Waffles, Kellogg is synonymous with breakfast and snacking.

In fact, from its humble beginnings in 1898, the company – which, by the way, boasts a massive $25-billion market cap – produces and markets over 1,600 foods. Plus, it's the world's leading cereal company, the second-biggest producer of snacks and cookies, and a standout in the frozen food space.

All told, that adds up to a dominant market presence and a massive engine for growth and innovation down the road.

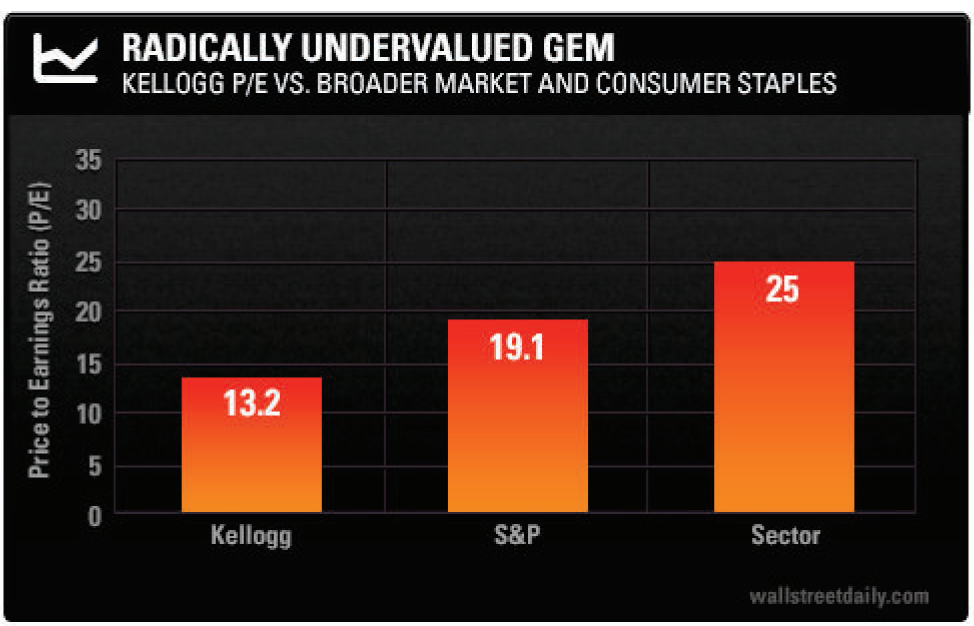
Factor #2: Bolstering Its War Chest. In May, the company announced an array of new cereal, snack and frozen food products that should provide huge top-line sales momentum. And better yet, many of these new products are offshoots of existing Kellogg brands. Talk about a clever move!

Here's just a sample of what's coming down the pike: Kellogg's Jif cereal, Rice Krispies Multi-Grain Shapes, Morningstar Farms breakfast sandwiches and Keebler S'more cookies.

Unmatched Value to Sweeten the Deal

Considering its market dominance, you might think that Kellogg's shares would be priced to perfection.

But that's simply not the case. In fact, Kellogg is an undervalued gem.



As you can see from this graph, Kellogg carries a trailing price-to-earnings ratio (P/E) of 13.12. This is significantly below the broader market's P/E (19.1), and less than half of its sector's P/E (25).

That's untapped, unlocked value just waiting to bust out!

In fact, with analysts calling for Kellogg to earn $4 a share this year, the stock is worth $76, compared to the S&P 500 ($4 X 19.1). That's an instant $10 increase from a recent trading price of $66.

To top it off, compared to its competitors, Kellogg's shares are worth a whopping $100 ($4 X 25)! Factor in that same recent price of $66, and Kellogg shares could jump by 50% – and still be in line with competitors.

Talk about upside!

It also doesn't hurt that Kellogg pays a solid 2.8% dividend.

Bottom line: Backed by solid fundamentals and a dominant market presence, this undervalued gem should find its way into just about anyone's portfolio – even if its products aren't as "natural" as its labels suggest.

Onward and Upward,

Wayne Burritt

Kellogg's Superior Technical Outlook

Kellogg's stock has been in the midst of a blazing run. All told, from a low of $57 in February to a recent price of $69, the shares have jumped 21%. Not bad for a few months' work!

And don't forget: Trends tend to stay in the same direction, unless there's a significant fundamental reason for them to change.

Plus, in April – and then again in July of last year – the shares took a stab at tough resistance in the $65 to $67 range. Both times the stock retreated. It made another attempt this past April, but pulled back again.

Then, in May a break above $67 was successful – and the shares held. That's a clear sign of a strong technical outlook for a stock. Plus, it should now pave the way for even loftier highs.

URLs in this post:

[1] K: **http://finance.yahoo.com/q?s=K&ql=1**