



Is High Liner Foods Inc. the Top Small-Cap Food Stock to Own Today?

Description

High Liner Foods Inc. ([TSX:HLF](#)), one of the leading processors and marketers of frozen seafood in North America, announced first-quarter earnings results on the morning of May 12, and its stock has responded by trading erratically in the days since, but remains relatively flat overall. Let's take a closer look at the results to determine if we should consider initiating long-term positions today, or if we should avoid the stock for the time being.

Breaking down the first-quarter results

Here's a summary of High Liner's first-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q1 2015	Q1 2014
Adjusted Earnings Per Share	\$0.50	\$0.44
Revenue	\$310.22 million	\$302.65 million

Source: High Liner Foods Inc.

High Liner's adjusted earnings per share increased 13.6% and its revenue increased 2.5% compared with the first quarter of fiscal 2014. The company's double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 13.4% to \$15.6 million, helped by its net selling, general, and administrative expenses decreasing 7.2% to just \$26.76 million.

Its slight revenue growth can be attributed to sales increasing 5.2% to \$242.31 million in the U.S., but this growth was largely offset by sales decreasing 6% to \$67.91 million in Canada. However, it is important to note that the decrease in sales in Canada can be entirely attributed to the weakening of the Canadian dollar against the U.S. dollar, which resulted in a \$16.64 million foreign exchange loss. Excluding the impact of foreign exchange, High Liner's revenue increased 5.4% to \$326.9 million in the first quarter.

Here's a quick breakdown of eight other notable statistics and updates from the report compared with

the year-ago period:

1. Total sales volume decreased 5% to 89.5 million pounds
2. Sales volume in the U.S. decreased 5.5% to 71.6 million pounds
3. Sales volume in Canada decreased 2.7% to 18 million pounds
4. Gross profit increased 0.3% to \$68.53 million
5. Gross margin contracted 50 basis points to 22.1%
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 12.6% to \$30.67 million
7. Adjusted EBITDA margin expanded 90 basis points to 9.9%
8. Net cash flows provided by operating activities increased \$18.9 million to \$18 million

High Liner also announced a 14.3% increase to its quarterly dividend to \$0.12 per share, and the next payment will come on June 15 to shareholders of record at the close of business on June 1.

Should you be a buyer of High Liner today?

High Liner posted a very strong first-quarter performance, so I think the erratic trading in its stock is a result of external factors that have impacted the overall market. With this being said, I think High Liner's stock represents a very attractive long-term investment opportunity today.

First, High Liner's stock trades at just 14.8 times fiscal 2015's estimated earnings per share of \$1.55 and only 12 times fiscal 2016's estimated earnings per share of \$1.91, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 46.6. I think the company's stock could consistently command a fair multiple of at least 18, which would place its shares upwards of \$27.75 by the conclusion of fiscal 2015 and upwards of \$34.25 by the conclusion of fiscal 2016, representing upside of more than 20% and 48%, respectively, from current levels.

Second, High Liner now pays an annual dividend of \$0.48 per share, which gives its stock a 2.1% yield at today's levels. A 2.1% yield may not seem impressive at first, but it is very important to note that the company has increased its annual dividend payment for seven consecutive years, making it one of the top dividend-growth plays in the food industry today.

With all of the information provided above in mind, I think High Liner Foods is the top small-cap food stock in the market today. Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Dividend Stocks
2. Investing
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TICKERS GLOBAL

1. TSX:HLF (High Liner Foods Incorporated)

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