Why You Don't Want to Ignore This $2 Stock

Description

In April, Kitchener-based **Brick Brewing Co. Limited** (TSX:BRB) announced that it had acquired the Canadian rights to both LandShark Lager and Margaritaville Classic Margarita Coolers, two products heavily reliant on Key West entertainer Jimmy Buffett's signature laid-back vibe.

The announcement was less about the products and more about Brick Brewing signaling that it was no longer an also-ran in the Canadian booze business. Currently trading around $2.20, it's probably not on a lot of investors' radars—but it should be because it's a $2 stock you don't want to ignore. Read on and I'll tell you why.

For starters, its earnings are better now than they've ever been. In the first quarter of 2017 Brick Brewing reported EBITDA of $1.9 million on revenue of $9.5 million. That's 111% and 23% higher year over year, respectively. Most importantly, its gross margin increased by 790 basis points in Q1 to 35%, arguably the highest in its 32-year history.

In terms of its products, all of its brands achieved volume increases in the first quarter. That said, it plans to focus its growth less on its Laker brand and more on the two new products mentioned previously, along with its Seagram coolers business and Waterloo brand of beers, which together delivered 1,300 additional hectolitres of production in the first quarter, an increase of 26% over the same period in fiscal 2016.

Brick Brewing invested $9.3 million in an expanded brew house in fiscal 2016. With the increased capacity it will be able to continue to grow its co-packing business, which currently consists of two contracts: one with **Loblaw** to produce its President's Choice beers and a second with **Canada Dry Mott's Inc.** to produce the Mott's Caesar brand. In the first quarter of fiscal 2017, its co-packing business increased by 52% year over year. Look for more double-digit returns for the remainder of its fiscal year.

With long-term debt of just $4.5 million or 7.8% of its total assets, Brick Beer’s management have an opportunity to grow the business both organically and through acquisitions. Look for M&A possibilitiesin the next year or two. In the meantime, it’s got to some great brands to grow organically.

On a valuation basis, investors might feel Brick Brewing stock is expensive at 21 times forward earnings. However, considering it’s never been this profitable, I think you can safely call it a GARP stock—growth at a reasonable price—where 12-24 months down the road, 21 times earnings will likely appear more than reasonable.

Interestingly, despite being a $2 stock, its market cap has grown at a nice and gradual pace since 2008 when it was valued at $9 million and losing money. Today, at almost 10 times the market cap, it’s making money and margins have never been higher.

If you’re looking for a smart bet on a very tiny piece of your investment portfolio, Brick Brewing is a $2 stock you shouldn’t ignore.

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