# High Liner Foods Inc. Is 27% Cheaper: Is it Attractive?

## Description

**High Liner Foods Inc.** (TSX:HLF) shares have fallen 7% midday on Wednesday after reporting its fourth-quarter earnings and 2016 full year results.



The company has about three-quarters of its business in the U.S. and Mexico and one-quarter in Canada.

Investors should keep in mind that the financial results of the more than 115-year-old North American processor and marketer of value-added frozen seafood has been impacted unfavourably by a strong U.S. dollar against the Canadian dollar because the company reports in the U.S. dollar.

### The results

Sales declined 4.5% to US$956 million due partly to the sale of its scallop business in the third quarter. Without the impact of foreign currency, sales in domestic currency still declined by 3.4%.

Thankfully, lower raw material prices, incremental supply-chain optimization savings, and lower finance costs from debt reduction paid down with free cash flow helped with earnings growth.

Net income rose 11.5% to $33 million, while adjusted net income climbed 14.9% to $40.9 million. The growth is similar on a per-share basis as well because the number of outstanding shares has remained negligibly the same.

Image not found or type unknown
dining, salmon, seafood

### Dividend

High Liner Foods seems to be getting some support for its shares at a 3% yield. That's likely because the food processor has a tendency to hike its dividend.

It has done so for nine consecutive years at an annualized rate of 20%. High Liner Foods last increased its dividend by 7.6% in Q4 2016. Its payout ratio was about 43% in 2016. So, it maintains a sustainable dividend.

**The case to invest in High Liner Foods**

High Liner Foods has been an industry leader for more than five decades. It offers over 30 species of seafood.

There are health benefits tied to eating fish. As people become more health conscious, there will likely be a greater consumption of fish. People 45 years or older account for half of the seafood consumption in North America. So, High Liner Foods will benefit from an aging demographic.

Its products can be found in most grocery and club stores. It also supplies its seafood to North American food retailers and food-service distributors and sells its products to restaurants and institutions.

Since 2013, High Liner Foods has generated return on equity (ROE) of at least 14.8%. This is thanks partly to its accretive acquisitions of American Pride Seafoods and Atlantic Trading Company.

In the last decade, the company's ROE has shown improvement when it's made acquisitions. So, it seems management is capable of picking the right acquisitions at the right price. If High Liner Foods decides to acquire another company, it's likely that it'll be beneficial to shareholders.



**Outlook and valuation**

Management expects "lower demand for frozen breaded and battered seafood products [to] continue into 2017 … After completing [its] supply-chain optimization project and improving [its] debt-to-Adjusted EBITDA ratio in 2016, [it is] well positioned for product innovation and further acquisition opportunities to support sales and earnings growth and further species diversification."

In the meantime, the shares have declined about 27% since September. Changing hands at about $18.40 per share, High Liner Foods trades at a multiple of about 9.8.

**Investor takeaway**

High Liner Foods trades at a cheap multiple, and its 3% yield seems to be showing some support for its shares. Although near-term demand has slowed, the company can still grow its earnings per share at a rate of 6-8% in the medium term.

So, High Liner Foods is an all right investment at this price, but it would be more attractive if it fell to the $13-15 level.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:HLF (High Liner Foods Incorporated)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Yahoo CA

**Category**

1. Dividend Stocks
2. Investing

**Date**
2025/07/03
**Date Created**
2017/02/23
**Author**
kayng