



What Happened to High Liner Foods Inc. This Week?

Description

Earlier this week, shares of **High Liner Foods Inc.** ([TSX:HLF](#)) fell in value by 7.5% as a result of an earnings release which did not meet expectations. The company reported earnings of \$0.24 per share for the fourth quarter of fiscal 2016 and earnings for the entire year of \$1.31 per share.

Trading at a price-to-earnings ratio (P/E) under 14 times, the share price of \$18 may be a great bargain. Over the past year, management has done a fantastic job in managing revenues and expenses, increasing the gross profit margin from 20.1% in fiscal 2015 to 21.2% in 2016. The total profit per share (EPS) increased from \$1.14 in fiscal 2015 to \$1.31 in fiscal 2015 in spite of a decline in revenues from approximately \$1 billion to \$956 million.

The fantastic news for long-term investors is the dividend yield is now in excess of 3% while the payout ratio has remained steady. For fiscal 2016, the dividend-payout ratio was 39.7% of earnings, while the amount was 40.8% in 2015. Given the total number of shares outstanding has also remained steady between 30 and 31 million shares, the company does not have to be concerned with a rising share count.

Investors must not forget: when more shares are issued or dividends are reinvested, the company is responsible for paying dividend on all shares outstanding, even if the share base gets bigger.

Outlook

Although the outlook for the main products offered by the company is not one of optimism, the reality is, the company has more than enough free capital available to bring new products to market, bringing new customers to the table, all the while remaining focused on optimizing the current distribution system and selling less profitable operations, such as the New Bedford scallop facility, which was sold off during the past year.

For investors looking to add to their portfolios, the question, "What am I giving (paying) and what am I getting?", is to ask at all times. In this case, an investor is paying 14 times earnings and receiving shares in a company with improving distribution and margins.

A new investor taking a position will be receiving a reasonable amount of certainty regarding the revenues, earnings, and dividends offered by the company, which has the option of growing by acquisition in addition to the potential expansion into new markets.

Currently, High Liner Foods is a market leader in Canada and in a number of states in the U.S., but not everywhere. With a number of states left to conquer and potential expansion into South America, this company may only be at the beginning of another major phase of growth.

Given the industry and defensive nature of the company, investors who make the choice to acquire shares should do so with proper expectations. Shares of High Liner Foods fit into the “get-rich-slowly” category, not the “exciting” category.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HLF (High Liner Foods Incorporated)

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