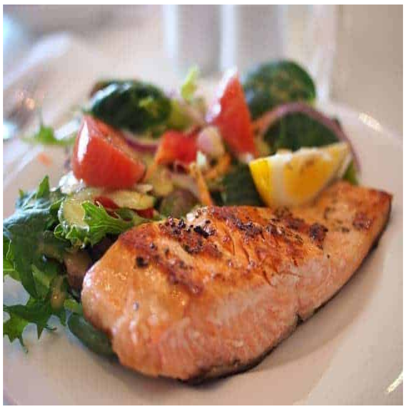

3 Reasons This Food Stock Will Rocket to $100

Description

Specialty food producer **Premium Brands Holdings Corp.** (TSX:PBH) just announced record first-quarter earnings results, putting its stock on a crash course for $100.

Trading at $88, or 37 times earnings, investors might be inclined to go with other food stocks, like **Saputo Inc.** (TSX:SAP) or **Maple Leaf Foods Inc.**, whose P/E ratios are significantly lower.

Don't.

Premium Brands trades at a higher multiple than its two bigger peers for three fundamental reasons.

Acquisitions

Premium Brands's goal is to be North America's largest specialty foods company. To get there, it plans to make a significant number of acquisitions in the months and years ahead on top of the many it's already made over the past decade.

While organic growth is important to the company, Premium Brands has made a name for itself by buying companies of varying sizes and successfully integrating them into its existing business. In my experience, very few companies are good at this.

"In terms of acquisitions, we continue to enjoy a very robust pipeline of small to large opportunities and fully expect to complete several transactions in 2017," said CEO George Paleologou in the Q1 2017 earnings release. "The extent of our deal flow is the direct result of an increasing number of successful food entrepreneurs viewing us as the ideal company to partner with."

Premium Brands has become the **Berkshire Hathaway Inc.** of specialty foods; it is willing to take less to ensure what it's built continues to grow.

You can't put a multiple on that kind of advantage.

Free cash flow machine

Premium Brands finished the first quarter with trailing 12-month free cash flow of $130.8 million — a 7.7% increase over Q4 2016. For the three months ended April 1, 2017, its free cash flow increased 49.2% from a year earlier to $28.2 million.

Its dividend-to-free cash flow ratio as of April 1, 2017, was 35.3% — 130 basis points fewer than at the end of December, leaving it plenty to make acquisitions, repurchase shares, invest in its business, and pay down debt.

As I said in my article recommending Premium Brands Stock back in January — its stock is up 28.7% since then — its free cash flow yield of 5% isn't cheap, but I don't consider it outrageously expensive either.

As it continues to grow revenues while increasing margins, earnings will keep rising — the key catalyst for higher share prices. Premium Brands has grown earnings for five consecutive years with a sixth looking good after a strong first quarter.

That's a recipe for long-term success.

Expansion of facilities

The company announced two projects that are expected to be completed by the end of the 2017 fiscal year, which should further its organic growth.

The first project is a 212,000-square-foot sandwich plant in Phoenix which will increase its sandwich production capacity by 50% to 610,000. The move allows the company to go after a larger group of prospective customers and new opportunities.

The second move to organically grow is the construction of a 105,000-square-foot seafood and protein custom cutting and distribution facility in the Greater Toronto Area. The facility allows the company to provide its retail and food service customers in southern Ontario with the best in live, fresh, and frozen seafood, along with the very best in proteins.

While active in western Canada, this expansion levels the playing field across the country.

Bottom line

With a 25.5% revenue increase in the first quarter, along with a 66.3% increase in net earnings from a year earlier, Premium Brands is off to a tremendous start in fiscal 2017.

There just needs to be a 15% increase in its stock price to hit $100. I see Premium Brands hitting the century mark by the fall. But even if it doesn't, its stock is a buy-and-hold proposition.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:PBH (Premium Brands Holdings Corporation)
2. TSX:SAP (Saputo Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/02
Date Created
2017/05/16
Author
washworth