Why Boring Businesses Are Good Investments

Description

Last week, **High Liner Foods Inc** (TSX:HLF) reported earnings that pretty much met expectations. The company reported revenues of close to US$275 million for the quarter, which translated to a bottom-line profit of US$0.35 per share. According to the USD/CAD conversion presented by the company, this amount translates to approximately $0.46 per share in Canadian dollars.

Out of the net profit of $0.46 per share, the company declared a dividend of $0.14 per share, translating to a payout ratio close to 30%. The dividend, which has been consistent for the past four quarters, may provide significantly more excitement for investors over the next year than the day-to-day operations of the business.

Along with the earnings, company management announced the closing of an acquisition (subject to approval from the Toronto Stock Exchange) of a company called Rubicon Resources, LLC. The company is a major player in the shrimp business.

The purchase, which is scheduled to close during the second quarter of fiscal 2017, will come at a cost of approximately US$107 million with High Liner providing 70% of the purchase price in cash, and the remaining 30% will be settled in stock.

The benefit provided by this acquisition is expected to begin accruing to shareholders of High Liner immediately, while the synergies between the two operations will take a little longer. Although it would be preferable to have a stronger Canadian dollar (or a weaker U.S. dollar) for this transaction, investors can't have everything.

The reason shareholders should be pleased with this acquisition is due to the diligence of company management to remain focused on the bottom line. While many CEOs and senior managers prefer to manage a company with bigger and bigger revenues, the management at High Liner have sold off the scallops business, which no longer fit into the company's big picture. Given the timing of this new acquisition, one can only assume that company management believed in the high return on equity being the driver to either divest or make a new acquisition.

When investors consider which company and industry to invest in, the reality is, the high-growth opportunities are not being presented in the frozen seafood market. The frozen seafood market is a defensive business that presents investors with the potential to obtain consistent returns and dividends year after year. In the case of High Liner, shares, which are currently trading at a price near the $18 mark, offer a dividend close to 3% and a fairly predictable revenue stream.

The best part of the investment is that the dividend has been increased from $0.35 per share in 2013 to a current rolling dividend of $0.56 (calculated as $0.14 multiplied by four quarters). The compounded annual growth rate of the dividend from 2013 to 2017 (assuming the dividend remains constant at $0.14) is approximately 12.5%. With the new acquisition of Rubicon Resources, LLC, the dividend increases could potentially accelerate. We'll have to wait and see.

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