Why Premium Brands Holdings Corp. Is up Over 6%

Description

Premium Brands Holdings Corp. (TSX:PBH), one of North America's leading producers, marketers, and distributors of branded specialty food products, released its second-quarter earnings results this morning, and its stock has responded by rising over 6% in early trading. Let's break down the quarterly results and the fundamentals of its stock to determine if the rally can continue and if we should be long-term buyers today.

The results that ignited the rally

Here's a quick breakdown of eight of the most notable financial statistics from Premium Brands's 13-week period ended on July 1, 2017, compared with its 13-week period ended on June 25, 2016:

Metric	Q2 2017	Q2 2016	Change
Revenue: Specialty Foods segment	$347.7 million	$273.0 million	27.4%
Revenue: Premium Food Distribution segment	$229.7 million	$189.9 million	21%
Total revenue	$577.4 million	$462.9 million	24.7%
Gross profit before depreciation and amortization	$115.4 million	$88.3 million	30.7%
Adjusted EBITDA	$55.0 million	$40.1 million	37.2%
Adjusted earnings	$27.9 million	$18.9 million	47.6%
Adjusted earnings per share (EPS)	$0.94	$0.66	42.4%

Cash flows from operating activities before changes in non-cash working capital	$42.5 million	$33.5 million	26.9%

What should you do with the stock now?

It was a phenomenal quarter overall for Premium Brands, and it capped off a very strong first half of the year for the company, in which its revenue increased 25.1% to $1.06 billion, its adjusted EBITDA increased 43.3% to $93.4 million, and its adjusted EPS increased 41.7% to $1.46. The second-quarter results also crushed the consensus estimates of analysts polled by **Thomson Reuters**, which called for adjusted EPS of $0.88 on revenue of $561.27 million.

With all of this being said, I think the +6% pop in Premium Brands's stock is warranted, and I think it still represents a very attractive long-term investment opportunity for three fundamental reasons.

First, it's one of the food industry's best growth stocks. Premium Brands grew its adjusted EPS by 37% to $2.48 in 2016 and by 41.7% to $1.46 in the first half of 2017, and analysts expect strong growth going forward, with current estimates calling for 33.1% growth to $3.30 in the full year of 2017 and 20.3% growth to $3.97 in 2018. I also think analysts will increase their estimates for 2017 and 2018 following the company's very strong first half.

Second, it's undervalued based on its growth. Premium Brands's stock currently trades at 29.2 times fiscal 2017's estimated adjusted EPS of $3.30 and 24.3 times fiscal 2018's estimated adjusted EPS of $3.97, both of which are inexpensive given its aforementioned growth rates.

Third, it has a great dividend. Premium Brands pays a quarterly dividend of $0.42 per share, equal to $1.68 per share annually, which gives it a respectable 1.7% yield. It's very important to note that the company's 10.5% dividend hike in March has it positioned for 2017 to mark the fifth consecutive year in which it has raised its annual dividend payment, and I think its very strong financial performance will allow this streak to continue into the late 2020s, making it one of the food industry's best dividend-growth plays.

With all of the information provided above in mind, I think Foolish investors should strongly consider initiating positions in Premium Brands today with the intention of adding to those positions on any significant pullback in the future.

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