Time to Buy This Food Stock Headed for $200

Description

The Globe and Mail in its weekly *Stars and Dogs* column August 18 named Vancouver-based food manufacturer **Premium Brands Holdings Corp.** (TSX:PBH) one of its two star-studded stocks on the week.

Up 10.43% over five days trading, Premium Brands' delivered record quarterly results August 14 ensuring that investors won't starve anytime soon. Fool.ca contributor Joseph Solitro does an excellent job capsulizing the company's third-quarter results.

In the middle of May, I highlighted three reasons why Premium Brands' stock would rocket to $100. Trading at $88 at the time, Premium Brands stock is now within a loonie of the century mark.

As George Peppard's character, Hannibal Smith used to say on the TV show *The A-Team*, "I love it when a plan comes together."

Next stop, $200? Let's not get ahead of ourselves.

First, let's take a look at the areas I feel make Premium Brands the preeminent food stock to own in this country.

Acquisitions

In the second quarter, acquisitions accounted for 68.3% of its revenue growth. The trick to Premium Brands' business model is that it takes the purchases it makes and grows them organically, so they pay for themselves.

In Q2 2017, its organic sales excluding some lower-margin products whose businesses it is exiting from were up 7.9%.

Operating much like a private equity firm in that it buys a company and then uses that company a platform to expand, it now has four platforms (Premium Distribution, Premium Processed Meats, Specialty Protein, and Sandwich Group) operating within the Specialty Foods and Premium Food

Distribution segments.

The only difference is that it hangs on to the companies it acquires for longer than 3-5 years. Since 2005 it's made 40 acquisitions for a total of $500 million. Some are big like the 2016 purchase of Montreal-based C&C Packing Inc. for $146 million; some are small like the second-quarter investment of US$2 million for a 25% interest in Partners, A Tasteful Choice Company, a Seattle maker of artisan crackers.

Little by little. Inch by inch.

Free cash flow

The company finished the second quarter with free cash flow for the trailing 12 months of $141.1 million, 16.1% higher than in the same period a year earlier. If you're an income investor, it's paid out $47.8 million in dividends over the same 12 months, about 33.9% of its free cash flow.

Currently yielding 1.7%, it's a darn good dividend for a company that's growing so fast. Consider that in 2001 it had no free cash flow; by the end of 2016, it was a whopping $4.22 per share.

You can do several things with free cash flow. Acquisitions, paying dividends, and investing in your business are three levers a CEO can pull.

CEO **George Paleologou** and CFO **Will Kalutycz** do an excellent job allocating capital.

How long until $200

It's taken Premium Brands' 45 months to go from $20 to $100. With all the growth on the horizon combined with the company's allocation of capital, it wouldn't surprise me if it did it in half that time.

$200 by June 2019 or bust.

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