

Since Interest Rates Have Risen, So Has This Stock

Description

Investors looking for stocks to buy amid rising rates have probably considered the obvious names by now. With higher returns available to lenders, both banks and insurance companies have come under the spotlight, and many investors have rallied behind these companies. The challenge, however, is that many Canadian investors already had a substantial portion of their investment portfolios invested in these names, and the search for bargains continued.

Although rising rates most often result from prosperous times, a higher cost to borrow can also lead to consumers tightening their belts and spending less money. As people still want to enjoy their free time, however, the traditional “outings” such as expensive dinners and live shows have been replaced with going to the movies or hosting parties at home.

Since interest rates have increased, companies like **Premium Brands Holdings Corp. (TSX:PBH)**, which offers a variety of specialty foods, have increased along with the cost to borrow money. The company is positioned to be one of the go-to food providers for those hosting parties at home.

The company had a fantastic year. It has seen the share price increase in value by more than 55% over the past 52 weeks and more than 40% since the beginning of the calendar year. Investors clearly believe in the long-term growth potential of this diversified name. The company currently carries more than 40 brands, which include Conte Foods, Larosa Foods, McSweeney’s, Direct Plus, OvenPride, and Island City Baking.

Over the past four years, revenues have increased from \$1,073 million to \$1,862 million, which translates to a compounded annual growth rate (CAGR) of 20.2%. The earnings per share (EPS) have followed suit and then some, increasing at a CAGR of 31.2%. EPS, which were \$1.07 for fiscal 2013, grew to \$2.42 in the 2016 fiscal year. Making things even better for investors is the dividend, which was \$1.21 per share in 2013, increased to \$1.49 in fiscal 2016. The dividend increased at a modest rate of 7.2%, while the total payout ratio, calculated as dividends/net earnings, decreased from 113% in fiscal 2013 to 61.5% for fiscal 2016.

With the company reporting earnings for the first two quarters of the current fiscal year, both earnings and dividends are on the rise. The company reported total earnings of \$1.45 for the first half of the year with investors receiving \$0.80 in dividends. The train is continuing down the tracks at record pace.

With a market capitalization of almost \$3 billion, the company’s debt load of approximately \$450 billion will be of minor concern should rates continue to rise. In the meantime, investors will continue to enjoy a dividend yield of almost 1.75% and the potential for a significant amount more capital appreciation.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:PBH (Premium Brands Holdings Corporation)

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