



## Fishing for Huge Returns? Look Elsewhere: This Company Just Stinks

### Description

In the search for yield and returns, investors often get sucked in to companies for a number of reasons. Perhaps the growth opportunity seems too big to miss, or the dividend yield is just too succulent to ignore; whatever the case, companies such as **High Liner Foods Inc.** ([TSX:HLF](#)) certainly do exhibit traits which, at first glance, may make this company look like a contender for a portfolio spot.

I'm going to discuss a few reasons I would stay away from High Liner and the frozen seafood business right now.

### Recall

In my previous [article](#) at the end of May, I advised investors to be wary of the impact of a recall that was underway at the time and pointed out that this issue would only exacerbate poor margins, which were declining. It has turned out that avoiding High Liner would have saved an investor more than 30% in stock price depreciation over this period.

The recall itself appears to be in the rear-view mirror; however, it should be noted that the expenses related to this recall (which took place in Q2 2017) impacted earnings in a much more significant way than initially anticipated, given the fact that the company was forced to expand the recall later in Q2, bringing the total cost of the recall up to \$9.3 million from just \$0.7 million for the initial portion.

Recall-related risks remain a factor every investor must consider with businesses such as High Liner, and given the fact this recall affected earnings in such a powerful way in Q2 2017, this episode highlights the need for investors to take these events more seriously in the future.

### Fundamentals

I have written previously of some of the underlying fundamental problems companies such as High Liner have exhibited. Despite contradictory views on High Liner from other analysts and fellow Fool contributors citing "[bad news](#)" as the reason for the decline in the company's share price, High Liner has continued to decline in recent months as investors gauge the long-term prospects of High Liner and the broader grocery retail business.

The reality remains that the core customers of High Liner are large food retailers in Canada and the U.S. — retailers that are currently under attack from an e-commerce onslaught led by the **Amazon.com, Inc.** acquisition of Whole Foods Market, which was announced this past fiscal quarter. With year-over-year declines in gross profit (\$37.8 million compared to \$46.7 million), net income (\$0.6 million compared to \$5.1 million), diluted earnings per share (\$0.02 compared to \$0.16), and an

increase in interest-bearing debt from 3.1 times at the end of last year to 4.3 times currently, High Liner's fundamentals simply do not support a bullish rebound thesis touted by others.

**Bottom line**

High liner is a company I would advise extreme caution with moving forward. At some price, shares of High Liner may become attractive as the company's share price fully reflects the underlying fundamentals of the business; I just believe that we have a ways to go before we see that entry point. Stay Foolish, my friends.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:HLF (High Liner Foods Incorporated)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Investing

**Date**

2025/06/30

**Date Created**

2017/09/20

**Author**

chrismacdonald

default watermark

default watermark