Which Is the Better Buy: High Liner Foods Inc. or Clearwater Seafoods Inc.?

Description

The seafood business can be very lucrative as consumers often pay a healthy premium in restaurants for lobster, crab, and other items. For this reason, I'm going to have a look at two businesses that are big players in this industry and assess which company is the better buy today.

High Liner Foods Inc. (TSX:HLF) is a well-known brand in grocery stores which you can normally find in the frozen food section; the stock has been struggling the past year with a decline in share price of 45%. **Clearwater Seafoods Inc.** (TSX:CLR) is vertically integrated, and the company is involved in harvesting, processing, and distributing shellfish and other seafood products. Clearwater's share price has also struggled, as its stock has dropped 33% in value in the past 12 months.

Falling sales and decreasing gross margins plague High Liner's financials

High Liner's sales declined 4% last year, and since 2014 revenues are down 9%. However, in the company's last quarter, it did see a year-over-year sales increase of 3%. Unfortunately, margins have not improved as the company barely posted a profit this past quarter compared to over $5 million in net income a year ago.

The reason behind the decline in the company's bottom line has been shrinking gross margins, which last year were 21%, and in the most recent quarter, the company kept only 16% of sales after covering cost of goods sold. High Liner's profit margins were already low at 2% a year ago and have averaged just 3% over the past four years, so any sort of decline in gross margin will cut deeply into the company's profitability.

Clearwater has seen sales growth every year

Clearwater has posted less revenue than High Liner, but the company has been achieving strong sales growth. In 2016, the company's $611 million in revenue was up 21% from the previous year and has increased 57% in three years. Clearwater has shown sales growth every year, and in the trailing 12 months, revenues have totaled $638 million as the company is on its way to another year of positive sales growth. In its most recent quarter, Clearwater saw a year-over-year increase in sales of over10%.

Profitability has been a challenge for Clearwater, as the company has posted net losses in two of the past three years, although in 2016 it did post a strong profit of over $43 million. In the past five quarters, Clearwater has averaged a profit margin of 5%, so there are signs it may be turning things around. The company has also benefited from higher gross margins than High Liner with margins of 19% in the most recent quarter, although those are still down from the 24% that Clearwater averaged for 2016.

Which stock should you buy?

High Liner offers a more attractive dividend with a yield of over 4% but with struggling growth and profits, you may end up using that payout to help absorb losses if the company cannot recover and the stock price continues to decline. Clearwater has shown more growth than High Liner, but it too has had issues with profitability, but those may have subsided.

Neither stock is particularly attractive, although Clearwater stands out as the better choice among the two. However, I would wait for some sustained recovery in the stock prices to avoid buying into a free fall.

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