Could This Small-Cap Be Canada’s Best Emerging Growth Stock?

Description

A growth stock is a company that is expected to grow at a rate that is faster than the market. These companies, especially in the early stages, don’t usually pay dividends because they are focused on reinvesting their earnings to develop and expand their business. A Canadian small-cap that could very well emerge as one of the best growth stocks available is Canada’s second-largest wine maker **Andrew Peller Ltd.** (TSX:ADW.A)(TSX:ADW.B).

Now what?

While Andrew Peller pays a dividend, it remains focused on expanding its business at a rapid clip by reinvesting in organic growth and acquisitions. The latest deal to be announced is the $95 million purchase of three British Columbia wineries with Andrew Peller buying 100% of the Black Hills Estate Winery, Gray Monk Estate Winery and Tinhorn Creek Vineyards. This transaction will enhance its brand presence in the higher-margin premium wine segment because the Black Hills Estate Winery, located on the Black Sage Bench, is one of Canada’s most prestigious wine makers.

The acquisition comes after Andrew Peller entered the competitive but expanding market for premium whisky through its Wayne Gretzky brand. In June, it opened the new Wayne Gretzky Estate Winery and Craft Distillery in Niagara-on-the-Lake, Ontario, to support its new product line. Demand for premium whisky in North America is growing at a healthy clip, and Andrew Peller is now nicely positioned to benefit from this growing demand.

The ongoing expansion of its business will enhance Andrew Peller’s growth prospects, giving its already solid financial and operational performance a further lift.

Despite fiscal first-quarter 2018 net earnings falling by 4.5% year over year, Andrew Peller still reported a solid quarter, because revenue rose by almost 1%, and the wine maker’s gross margin shot up by 1.4%. This was due to solid organic growth across both products and distribution, which, combined with the latest acquisition, will ensure a healthy bump in earnings over coming quarters.

For a business that is focused on expanding both organically and through acquisitions, it is important that its balance sheet remains in good shape. Even after allowing for the financing of the latest deal using $78 million from exiting lines of credit, total debt has only increased to a manageable $124 million, which is less than three times the company's EBITDA. The projected lift in EBITDA from the latest transaction should see that ratio fall further.

The strength of its second-quarter results allowed management to hike the winemaker's dividend by just over 10% at the end of the fiscal first quarter, giving it a yield of ~1.5%.

So what?

The wine making industry is typically perceived to be recession proof, and Andrew Peller, particularly after the latest deal, is well positioned to capitalize on growing wine consumption in North America.

According to data from the Wine Institute, U.S. wine consumption has been growing at a ~3% clip annually, and while Canadian consumption has also been growing by ~3%, much of that growth has occurred in the premium wine segment. Steadily growing demand for wine combined with Andrew Peller's expansion into the premium whisky market and the latest winery acquisitions will give earnings a healthy boost, which should give its stock a health lift.

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