Why Premium Brands Holdings Corp. Is Tumbling Over 7%

Description

Premium Brands Holdings Corp. (TSX:PBH), one of North America's leading producers, marketers, and distributors of branded specialty food products, announced its third-quarter earnings results this morning, and its stock has responded by tumbling more than 7% in early trading. Let's break down the quarterly results and the fundamentals of its stock to determine if the sell-off represents a long-term buying opportunity or a warning sign.

The earnings results that ignited the sell-off

Here's a quick breakdown of eight of the most notable financial statistics from Premium Brands's 13-week period ended September 30, 2017, compared with its 13-week period ended September 24, 2016:

Metric	Q3 2017	Q3 2016	Change
Specialty Foods revenues	$329.7 million	$274.5 million	20.1%
Premium Food Distribution revenues	$227.9 million	$206.5 million	10.4%
Total revenues	$557.6 million	$481.0 million	15.9%
Gross profit before depreciation and amortization	$102.5 million	$91.3 million	12.3%
Adjusted EBITDA	$49.5 million	$44.0 million	12.5%
Adjusted earnings	$23.3 million	$21.4 million	8.9%
Adjusted earnings per share (EPS)	$0.78	$0.73	6.8%
TTM free cash flow	$135.5 million	$121.5 million	11.5%

Notable CEO commentary in the report

In the press release, Premium Brands's president and CEO George Paleologou made the following comments:

> "Although we are pleased to report another quarter of record sales and EBITDA we know that we could have done much better had it not been for a number of transitory factors that impacted both our top and bottom line results. Of particular note were delays in the launch of several major sales initiatives, including a significant lead order for our new 212,000 square foot sandwich facility in Phoenix, AZ, that did not start shipping until the very end of the quarter … Our top line was also impacted by unusually poor weather in Ontario and Quebec that resulted in a significant decline in sales of grilling and other outdoor activity related protein products such as burgers, skewers, premium sausages and steaks."

Mr. Paleologou also pointed out the fact that the company completed three acquisitions during the quarter, bringing its total investments in new businesses to $46.3 million in the first nine months of the year, and he went on to note that they expect to announce several more acquisitions before the end of the year and that 2018 will be "another very busy year for acquisitions."

Is the +7% sell-off in its stock warranted?

It was a great quarter overall for Premium Brands, but its growth slowed significantly from the first half of the year, which its CEO did not hesitate to point out, so I think the sell-off in its stock is warranted. That being said, the company did grow its revenues by 21.8% year over year to $1.61 billion and its adjusted EPS by 27.8% year over year to $2.25 in the first nine months of 2017, so I think the downside in the stock will be limited.

What should you do now?

Even though I think the sell-off in Premium Brands is warranted, I think it represents a very attractive entry point for long-term investors for two fundamental reasons.

First, it's undervalued based on its growth. Premium Brands now trades at 27.9 times fiscal 2017's estimated EPS of $3.38 and 21.8 times fiscal 2018's estimated EPS of $4.32, both of which are inexpensive given its current earnings-growth rate and its long-term earnings-growth potential given its ongoing acquisition activity.

Second, it's a dividend-growth star. Premium Brands currently pays a quarterly dividend of $0.42 per share, equating to $1.68 per share annually, which gives it a yield of about 1.8%. A 1.8% yield isn't very high, but it's crucial to note that the company has raised its annual dividend payment each of the last four years, and its 10.5% dividend hike in March has it positioned for 2017 to mark the fifth consecutive year with an increase.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings sell-off in Premium Brands to begin scaling in to long-term positions.

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