



Why Premium Brands Holdings Corp. Is up Over 3%

Description

Premium Brands Holdings Corp. ([TSX:PBH](#)), one of North America's leading manufacturers and distributors of branded specialty food products, announced its fiscal 2017 fourth-quarter and full-year earnings results and a dividend increase this morning, and its stock has responded by rising over 3% in early trading. Let's break down the earnings results, the dividend increase, and the fundamentals of its stock to determine if we should be long-term buyers today.

The results that pleased the market

Here's a quick breakdown of five of the most notable financial statistics from Premium Brands's 13-week period ended December 30, 2017, compared with its 14-week period ended December 31, 2016:

Metric	Q4 2017	Q4 2016	Change
Revenue	\$585.4 million	\$532.6 million	9.9%
Gross profit	\$108.1 million	\$104.6 million	3.3%
Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA)	\$47.3 million	\$45.6 million	3.7%
Adjusted earnings	\$18.5 million	\$21.0 million	(11.9%)
Adjusted earnings per share (EPS)	\$0.62	\$0.71	(12.7%)

And here's a quick breakdown of six notable statistics from Premium Brands's 52-week period ended December 30, 2017, compared with its 53-week period ended December 31, 2016:

Metric	Fiscal 2017	Fiscal 2016	Change
Revenue	\$2,198.3 million	\$1,857.5 million	18.3%
Gross profit	\$418.6 million	\$350.8 million	19.3%

Adjusted EBITDA	\$190.2 million	\$154.8 million	22.9%
Adjusted earnings	\$85.3 million	\$71.2 million	19.8%
Adjusted EPS	\$2.86	\$2.46	16.3%
Free cash flow	\$131.3 million	\$121.5 million	8.1%

Rewarding its shareholders

In the press release, Premium Brands announced a 13.1% increase to its quarterly dividend to \$0.475 per share, and the first payment at this increased rate will come on April 16.

Another important announcement

In the press release, Premium Brands also announced four acquisitions for a total cost of approximately \$227 million. The combined sales of the four companies is approximately \$266.5 million, and all four transactions are “expected to be on an individual basis accretive to the company’s 2018 earnings.”

What should you do now?

The fourth quarter capped off a phenomenal year for Premium Brands, in which it achieved double-digit percentage growth across all of its key financial metrics, and the dividend hike was icing on the cake, so I think the +3% pop in its stock is warranted; furthermore, I would still buy the stock today for two fundamental reasons.

First, it trades at attractive valuations. After the +3% pop, Premium Brands’s stock trades at 38.4 times its adjusted EPS of \$2.86 for fiscal 2017, which may seem steep, but it trades at just 25.7 times the consensus EPS estimate of \$4.28 for fiscal 2018, which is very inexpensive given its current earnings-growth rate and its long-term growth potential given its [ongoing acquisition activity](#).

Second, it’s [a dividend aristocrat](#). Premium Brands now pays an annual dividend of \$1.90 per share, which brings its yield up to about 1.7%. A 1.7% yield isn’t incredibly high, but it’s very important to note that the dividend hike it just announced puts it on track for 2018 to mark the sixth straight year in which it has raised its annual dividend payment, making it one of the industry’s best dividend-growth stocks.

With all of the information provided above in mind, I think Foolish investors should consider initiating small positions in Premium Brands today with the intention of adding to those positions on any significant pullback in the weeks ahead.

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