Revisiting Canada’s Finest Food Stock

Description

Premium Brands Holdings Corp. (TSX:PBH) closed its $237 million acquisition of Oberto Brands on May 31. A day earlier, it announced that it had acquired Concord Premium Meats Ltd., a Toronto-based manufacturer of deli meats and other protein-related food products.

I don’t know about you, but I’ve lost track of how many acquisitions Concord Premium Meats President and CEO George Paleologou has made in recent years. What I can tell you is what he’s most certainly *not* done.

Premium Brands is in my opinion Canada’s finest food stock — and will continue to be so for years to come.

The only bad thing you could say about Premium Brands at this point is that it’s having an off year on the TSX, up just 12%, which is well short of its 10-year average of 26% and down from its April all-time high of $121.15.

Given that its stock has lost some of its momentum in 2018, I thought I’d revisit the stock to figure out why investors have soured on it. Is it just that investors are worried about its ability to keep going higher after racking up big gains? Or is there more to the story?

Personally, I believe it’s the former, but why don’t we have a look?

The latest earnings

Fool contributor Joseph Solitro discussed the company’s Q4 2017 earnings in March and he was very optimistic.

“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,” Solitro wrote on March 15.

That's the good news.

The bad news is that the fourth quarter was incredibly dull, with adjusted EBITDA increasing by just 3.7% on the shoulders of a 9.9% revenue hike. Both were much smaller increases than the same numbers over the entire year.

Talk about hitting a wall!

Not to worry.

Premium Brands announced its first-quarter earnings in May, which were much perkier, with revenues up 22.3%, organic volume growth of 9.4%, and adjusted EBITDA up 12.2% over the same quarter a year ago.

Considering the first quarter can be its weakest due to the seasonality of its business, the record revenues and adjusted EBITDA it delivered should be music to shareholders' ears.

If you're an income investor, you would have been smart to get your hands on some of the 4.65% April 2025 convertible debentures it issued in April to pay for the Oberto acquisition. That's a nice interest payment to receive twice a year, and you can convert them into common shares at $182.51 a share, which is 57% higher than where they currently trade.

Where to now?

In the company's first-quarter press release, Paleologou upped its annual sales by $300 million and adjusted EBITDA by $30 million, both healthy increases. Premium Brands continues to invest in initiatives that will organically grow its business.

Back in August 2017, I suggested that Premium Brands could get to $200 by June 2019. About a year out, I'm not nearly as certain that it can meet the ambitious target, but I have no doubt it will do so by June 2020 if the markets as a whole play along.

I consider Premium Brands to be the **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) of the food business. Companies big and small want to sell to the company because they know that Paleologou and company will provide a good home for their business, where it can continue to grow and prosper.

That means that over the long term, the M&A opportunities for Premium Brands are only going to get better — and making an investment in its stock almost a sure thing.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BRKA (Berkshire Hathaway Inc.)
2. TSX:PBH (Premium Brands Holdings Corporation)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/07/20
Date Created
2018/06/03
Author
washworth