# Is this Canadian Dividend Aristocrat a Falling Knife?

## Description

*Don't catch a falling knife*. Are you familiar with the term? It's used as a warning to investors that means don't attempt to make up the losses on an stock you hold by continuing to buy as the stock price craters. Although averaging down can work in certain instances, it is not recommended.

Which brings us to **High Liner Foods Inc.** (TSX:HLF). This Canadian Dividend Aristocrat has raised dividends for 10 consecutive years. Unfortunately, that's about all the company has going for it. Since reaching a high of $26.50 in early 2015, the company's stock price has been in a downward spiral.

To make matters worse, its losses have started to magnify in recent years. Over the past two years, the company's share price has lost almost 42% of its value. Over the past year, it has lost an additional 44%. Year-to-date it's down 27% as of June 11.

This decline has been swift, and has left current shareholders holding on to significant losses. But be warned; this could be a falling knife.



**Why the dip?**

Recently, the *Wall Street Journal* reported a clear shift in consumer eating habits. Grocery shoppers are turning away from the packaged food industry in favour of fresher options. Likewise, they are moving away from the larger and more established brands in favour of smaller upstarts.

In the United States, packed food companies have dropped by a third or more in the past year, which is consistent with High Liner's poor performance. Notably, 70% of High Liner's sales originate south of the border. Thus, this data is extremely relevant to the company.

New competitors have also emerged. Prepared food and meal-kit companies are rapidly gaining in popularity and eating packaged goods market share.

**Value trap**

Trading at 9.0 times earnings, investors might be fooled into thinking that High Liner is a great buy. Think again.

Analysts expect negative earnings growth over the next couple of years. As a result, its forward P/E is actually 11.73! This is not a good sign. Despite several acquisitions, the company has posted negative earnings growth in three of the past four years. Sales have been relatively flat, growing at a low compound annual growth rate of 2.3% over the past five years.

The company has struggled to integrate its most recent acquisition, Rubicon. During the company's most recent quarterly update, it admitted that the acquisition's performance was "significantly lower" than expected. High Liner also expects further sales erosion at Rubicon in 2018.

Outside of acquisitions in a declining industry, there is no clear path to growth at the moment.

**Don’t invest with emotion**

Would you invest in a company with declining profits and flat sales that’s operating in an industry that is seeing negative growth? This is what you’re doing if you’re throwing good money after bad by averaging down with High Liner.

Sure the rising dividend is nice, but there are better investments with equal yields out there.

Set your emotions aside. High Liner has all the signs of a falling knife and a value trap.

Invest your money elsewhere.

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