# 3 Reasons This Small-Cap Dividend-Growth Stock Gets Better With Age

## Description

Any time a company increases its quarterly dividend payment by double digits, shareholders have reason to get excited, because it's a sign earnings are also growing — the key driver of higher stock prices.



It's been some time since I last covered **Andrew Peller** (TSX:ADW.A), so when I recently noticed it had raised its dividend by 13.9% in June while releasing fourth-quarter earnings, I just had to revisit it.

While the dividend increase is helpful, here are three other reasons I think Peller's stock gets better with age.

**Peller had an excellent fiscal 2018**

The wine, craft spirits, and cider maker delivered a strong year in fiscal 2018 with revenues up 6.2% to $364 million thanks to the acquisition of three B.C. wineries in October 2017, doubling its market share of B.C. VQA wines to 23%. Excluding the acquisition of Gray Monk Estate Winery, Tinhorn Creek Vineyards, and Black Hills Estate Winery, Peller grew organic sales by a healthy 3.7%.

On the bottom line, Peller managed to grow adjusted earnings by 14.4% in fiscal 2018 to $29.3 million — a net margin of 8.1%, 60 basis points higher than a year earlier.

A big reason for the 60-basis-point increase in the net margin comes from a corporate focus on driving higher gross margins on its sales.

"Operating profitability will continue to strengthen as we invest in our capacity and production efficiency through technological advancements that drive gross margin growth," stated Peller's 2018 annual report. "As we complete the integration of our three new wineries, we expect further improvements in our overall profitability as we benefit from the resulting economies of scale and operating synergies."

While the company's got several exciting initiatives on the go, it's always prided itself on profitable growth. For example, Peller finished fiscal 2018 with a gross margin of 41.3% — the first time in the past decade it's reached into the 40s, which is a testament to cost controls.

**An even better first quarter**

On August 8, Peller announced its first-quarter results for fiscal 2019. They were even better than where it left off at the end of 2018 with sales growing 7.8% over a year earlier thanks to a substantial contribution from its three B.C. wines, mentioned previously.

Thanks to its focus on higher-margin products, Peller's gross margin in the first quarter increased 300 basis points to 43.2%, which led to a 17.9% increase in adjusted earnings.

Peller now produces 37% of the volume of the Canadian wine market and 14% of the entire world — many of which are winning awards.

By the end of fiscal 2019, Peller will have more than doubled its net earnings over the past five years.

**Outside the wines**

In June 2017, Peller opened the Wayne Gretzky Winery & Craft Distillery in Niagara-on-the-Lake, Ontario. There, the company is producing some excellent Canadian whiskies under the Wayne Gretzky No. 99 brand.



In the cider arena, Peller introduced No Boats on Sunday in 2016 — it's made about an hour up the road from Halifax in Truro, Nova Scotia — and it quickly became the top-selling cider in the province; that's no small feat given how competitive the Nova Scotia cider industry is.

Together, the two offshoots will provide the extra revenue growth it needs to get to $500 million annually within the next three to five years. Not to mention it offers a nice diversity of products when selling to each of the provincial liquor commissions.

**Not just a growth company**

Getting back to the dividend, Peller has now increased its annual payment for five consecutive years, making it not only a growth stock but a dividend-growth stock.

Having lost about 5% of its value over the past three months now would make a perfect entry point before it announces its second-quarter earnings in early November.

Back in March 2017, I'd recommended that investors consider Peller stock, suggesting that the Gretzky alliance was a big reason it soon would be a billion-dollar market cap.

Up 53% since then, I don't see why it can't hit $1 billion (around $23 a share) by the end of 2020.

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