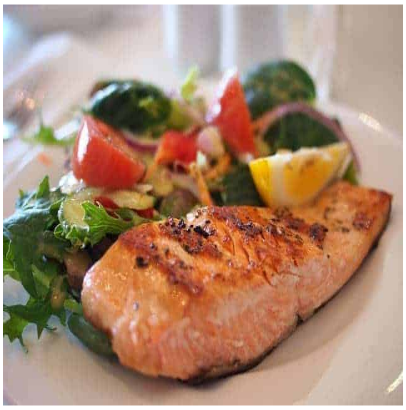

It’s Time to Bite Into Premium Brands Holdings Corp. (TSX:PBH) Stock

Description

There are five TSX stocks that I believe every investor should own. **Premium Brands Holdings** (TSX:PBH) is one of them.

I’d first recommended the food company’s stock in January 2017, suggesting that it (along with two other stocks) had an excellent chance to deliver 10% annual total returns over the long haul.

Up 52% in 2017, long-time investors in PBH stock are likely shocked at how poorly it’s been performing over the past three months — it’s off 16.5% through August 22 — and have got to be wondering if they’ve missed an opportunity to take some profits off the table given the recent correction.

On the contrary; I believe now is the perfect time to add to your portfolio. Here’s why.

Ride your winners

Warren Buffett called legendary portfolio manager Peter Lynch in 1989 to ask if he could use a line from Lynch’s book *One Up on Wall Street* for his 1988 annual letter to **Berkshire Hathaway Inc.** shareholders.

The line in question: “Selling your winners and holding your losers is like cutting the flowers and watering the weeds.”

A few years later, Lynch revised the saying to “let your winners run and cut your losers.”

Lynch’s saying absolutely applies to PBH stock, because over the past five years it’s only had one monthly correction (calendar month and adjusted for dividends) of 10% or more, and that was in March 2014; the latest correction happening gradually over the past 90 days with no weekly loss of more than 5%.

So, it’s unlikely that PBH’s shareholders had any inkling that a significant correction was happening until it was too late.

And that's where we sit today, down 16% over the past three months.

Where to next?

That's impossible to know. The bull market is long in the tooth, trade wars could spark a broader market decline, and Premium Brands could deliver a stinker of a quarter — but that last one is highly unlikely.

Living in a bubble, I'd say existing shareholders should buy as much as possible, but of course, that's not the world we live in.

In early June, I said about Premium Brands: "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."

In the past I've called Premium Brands Canada's finest food stock, and nothing I've seen suggests that title is good for the taking.

The business looks better than ever.

A key competitive advantage

On August 13, the company announced record second-quarter results that saw it increase revenues and adjusted EBITDA by 32% and 35%, respectively, with 6.6% organic growth along with its gains from previous acquisitions.

CEO George Paleologou stated in its Q2 2018 press release that Premium Brands has made $541 million in acquisitions in the first six months of 2018; it will continue to buy other food-related businesses in the second half of the year.

Food companies across North America are coming to Premium Brands before looking at other divestiture options in much the same way Warren Buffett gets a first look at businesses for sale before others do.

That's a definite competitive advantage, in my opinion.

For all the reasons listed above, I believe there is no better time to bite into Premium Brands stock.

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