Warning: Not All Dips Are Buying Opportunities

Description

As a value investor, I love market dips as much as the next value-conscious investor. In times of uncertainty, there are plenty of bargains to be found. I've touched on a few such as one of Canada's best utility companies and one of Canada's cheapest tech stocks. There are however, significant pitfalls to buying dips on overall market weakness.

The most dangerous thing you want to avoid is *catching a falling knife*. The literal meaning is not pleasant, nor is it when used to reference a stock that has had a rapid price decrease. In essence, buying stocks on the way down can be very dangerous to your portfolio.

Case in point: **High Liner Foods Inc.** (TSX:HLF)

Atrocious performance

I've written about High Liner Foods twice before. When it was trading at $10.85, I warned investors that it was falling knife. Then, in mid-August I again cautioned against its status as a value stock. It was trading at $8.78 at the time. It has since found a bottom at its 52-week low of $6.35 before rebounding. It's been range-bound in the low 8s for the better part of the past two months.

Year to date, the company has lost approximately 44% of its value. Ouch. If you were lucky, you may have gotten in at the bottom and can be sitting on healthy gains. However, if you averaged your way down, you're still in the red by a significant margin. Despite a reliable history of dividend growth, it's one of the worst performing Canadian Dividend Aristocrats.

Headwinds remain

The company has been touted many times as a value play thanks to its share price falling off a cliff. However, many headwinds remain. The company still operates in a sector that is seeing declining demand as consumers are looking for fresher meal solutions. The U.S. segment which accounts for 74% of revenues is facing four separate challenges; soft sales volume, lower commodity margins and higher costs.

The fourth? There is still the significant overhang from Trump's tariffs on Chinese imports. Although Canada's trade deal with the U.S. provides more certainly, they still import a great deal of product from China to the United States. A report from BMO Nesbitt Burns estimates that tariffs can impact High Liner to the tune of $24 million a year.

Valuation

At first glance, its price of 8.42 times earnings looks attractive. That said, if you look closer you will see that the company is expected to post negative earnings growth over the next couple of years. Unfortunately, this isn't a one-time trend. High Liner has posted negative earnings growth in three of the past four years.

Estimates have also been trending downward in a pretty significant way. Three months ago, the average analyst estimate was for 2019 earnings of $0.89 per share. Today, that number has dropped 13.5% and currently sits at $0.77. As a result, its forward P/E is 10.84. Given its recent performance, this should not be considered cheap.

Until the company can stabilize itself and return to growth, I'd avoid the stock. Instead, use the current market dip to focus on companies with consistent and reliable earnings growth and who have a bright future.

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