Is This High-Growth Stock a Great Buy After Correcting 40%?

Description

Premium Brands Holdings (TSX:PBH) has been a phenomenal stock. An investment in it five years ago has more than tripled, despite the huge drop in the stock on Tuesday. Specifically, the growth stock fell 16% and is actually about 40% below its peak.

Premium Brands's business

Premium Brands invests in food businesses, including manufacturers of specialty food products and food distribution businesses. It uses a decentralized management structure, which encourages an entrepreneurial culture. It aims to acquire brands that have leading positions in their markets and businesses that offer product differentiation.

About 70% of its 2017 sales were in Canada and roughly 30% were in the United States. Its product offering is diversified across 15 categories, including sandwiches (23.4% of sales), premium processed meats (16.3%), beef (15.4%), seafood (9.7%), and burger patties (5.5%).

Premium Brands's recent acquisitions

Premium Brands has made countless acquisitions over the years. This year alone it acquired seven businesses, totaling investments of about $59 million, which weren't nearly as much as the $244 million and $203 million invested, respectively, in 2016 and 2017.

This year's acquisitions include Oberto, an American family-owned business that makes meat snacks, and Penguin Meat Supply, which processes and distributes almost all kinds of meat (but not penguin meat) throughout British Columbia.

Q3 results

The company just reported its third-quarter results on Tuesday. Here are some key metrics compared to the same period in 2017:

	Q3 2017	Q3 2018	Change
Revenue	$557.6 million	$835.5 million	50%
Adjusted EBITDA	$49.5 million	$71.3 million	44%
Earnings per share	$0.72	$1.09	51%
Adjusted earnings per share	$0.78	$0.95	22%

First nine-month results

Here are some key metrics compared to the same period in 2017:

	Q1-Q3 2017	Q1-Q3 2018	Change
Revenue	$1,613.2 million	$2,181.9 million	35%
Adjusted EBITDA	$142.9 million	$188.6 million	32%
Earnings per share	$2.13	$2.50	17%
Adjusted earnings per share	$2.25	$2.68	19%

Investor takeaway: The problem with today's Premium Brands

Premium Brands has a habit of increasing its share count over time. For example, its average shares outstanding have increased by about 47% since 2013. This indicates that it raises capital from the market to fund its acquisitions. This is fine when its stock price keeps heading higher, but that's not the case right now. In fact, it's entirely the opposite.

It would not be the best idea for the company to raise money from the markets now because the stock has fallen so much. At under $73 per share as of writing, Premium Brands trades at below an estimated 2018 price-to-earnings multiple (P/E) of 18. Although that seems like a cheap multiple compared to the P/E of 37 it traded at its peak, interested investors are cautioned to wait for the stock to show signs of turning around before considering a position.

On a positive note, in the 12 months that ended September, the company generated about $154 million of free cash flow, of which nearly 40% was used for its declared dividends. So, it’d still have about $92 million that it could use for acquisitions if it wished to do so.

Right now, investors are probably better off with other growth stocks.

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kayng