



If Your Glass Is Half Full, This Growth Stock Is for You

Description

Talk about a whipsaw year.

If you own Vancouver-based **Premium Brands** ([TSX:PBH](#)), a food company with a penchant for acquisitions, you've seen a lot of good stuff operationally in 2018 mixed in with a poorly performing stock.

A lot of acquisitions

Premium Brands CEO George Paleologou is a serial acquirer. He buys good businesses that fit into the company's plans and then makes them even better. Through the first nine months of 2018, the company's made \$740 million in acquisitions with more in the pipeline, making it the busiest year on record.

"A common theme across many of our growth platforms is replicating in the U.S. the success they have achieved in Canada, both through acquisitions and organic initiatives," Paleologou stated in November. "We are making excellent progress towards our goal of building billion dollar platforms in each of the sandwich, meat snack, cooked protein and seafood categories due in large part to our success in the U.S."

I'm a glass half full kind of person, so I look at all the things it's doing on the acquisition front and think the company is building a scalable business that can compete with the **ConAgra's** of the world.

Too many shares

My Foolish colleague Kay Ng believes that Premium Brands' use of share capital to make these acquisitions isn't what's best for shareholders, especially when its share price is down significantly from its 52-week high of \$122.77.

“Its average shares outstanding have increased by about 47% since 2013. This indicates that it raises capital from the market to fund its acquisitions,” Ng [wrote](#) November 14. “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.”

She’s not wrong.

Her thesis suggests that Premium Brands has run out of dry powder to make future acquisitions, which if you follow PBH, have gotten bigger and bigger with time.

However, I see things a little differently.

The platform for growth

Paleologou is building a business that has four billion-dollar-platforms on which to grow. Right now, Premium Brands is about 70% of the way there regarding overall revenue with the four platforms at various stages of progress: seafood being the least advanced of the bunch.

So, you can be sure he’s looking around for acquisitions in the seafood arena. Sometimes, candidates take a while to reveal themselves, although the company is [becoming](#) the **Berkshire Hathaway** of food; interested sellers go to Vancouver before approaching anyone else.

That’s a significant competitive advantage.

But here’s the other thing that makes me confident about Premium Brands’ future.

A lesson in capital allocation

Paleologou reminds me of [Henry Singleton](#), the master capital allocator from the 1970s, who used Teledyne equity to buy companies when its share price was high and debt when share prices were low. At the same time, Singleton would use free cash flow to repurchase its shares when they were inexpensive.

Premium Brands currently has \$730.1 million in long-term debt, which is about 21% of its total capital and 27% of its market cap, both reasonably low percentages despite its stock falling 35% since its April highs.

I believe that Premium Brands’ plan all along has been to use its acquisitions to grow a cash flow machine that can allocate capital in good times and bad, pulling the levers that make the most sense at any given time.

What that means is that Paleologou’s future acquisitions will probably be made with debt until its share price goes back to triple digits.

In the meantime, I’d be shocked if it weren’t buying back as much stock as its NCIB allows.

The bottom line on Premium Brands stock

If you're a glass half full person like I am, the fact that PBH stock hasn't been this cheap for 21 months suggests that now is a great time to buy.

If you're a glass half empty person like my colleague, however, you're likely not nearly as enthusiastic.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:PBH (Premium Brands Holdings Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/18

Date Created

2018/12/07

Author

washworth

default watermark

default watermark