Is There Value Within High Liner Foods (TSX:HLF)?

Description

High Liner (TSX:HLF) is one of the most recognized brands in the realm of frozen seafood, with a strong product portfolio and dominant market position over its peers. In addition to seeing the company's namesake brand in your local grocer, High Liner owns a number of other well-known and respected brands in the industry, and High Liner has also diversified its customer list to include unbranded, bulk store products, supermarket-branded products, branded products, and it distributes to smaller stores and restaurants.

Given High Liner's dominant position in the market, you would think that the company represents a great opportunity, right? Let's try to answer that question by starting with High Liner's most recent quarterly update.

A painful quarterly update

High Liner is set to report on the fourth quarter within the next few weeks, so until that time we need to look back at how the company performed in the third fiscal quarter. In short, the results were not ideal.

When compared with the same period last year, sales volume dropped by 12.8%, which was reflected in overall sales dropping 14.7% in the quarter to US$241.2 million when compared with the US$282.7 million reported in the same period last year.

Adjusted net income for the quarter saw a considerable drop to just US$0.4 million, or US$0.01 per adjusted diluted share, from the US$8.4 million, or US$0.25 per adjusted diluted share reported in the same quarter last year.

If there is a silver lining from those results, it is that management is looking to become more efficient and adjust to changes in the marketplace. Specifically, the company noted five related initiatives that would be the focus over the next year. Those initiatives include lowering costs, becoming more efficient, better integrating with Rubicon, realigning some staff roles, and instituting strong marketing to grow demand.

Following the third quarter, High Liner performed its staffing realignment, which resulted in a 14% reduction in its salaried employees, which should provide upwards of $7 million in annual savings. A one-time charge related to staffing is expected to be conveyed in the upcoming Q4 report, with another charge coming later in the year.

Even High Liner's dividend, which, given the market slump towards the end of 2018 and High Liner's weak result, has swelled to an incredible 7.84% in recent weeks, raising the prospects that a cut could be possible in the near future.

Is there an opportunity here?

Here's the thing with High Liner: the company is operating in a unique environment with a high demand for its products. Strangely enough, fish prices, along with some meats, are slated to see price reductions in 2019 and a whole host of other factors such as tariffs, interest rates, and the overall health of the economy could weigh on High Liner's future earnings report.

What I do like about High Liner is that given all of these headwinds, the company is doing exactly what it needs to do to survive and thrive. Working on realigning its staffing roles, becoming more efficient, and better integrating Rubicon will not only reveal cost savings now but will help the company continue to grow in the future.

Finally, as tempting as that dividend looks right now, and as ridiculously cheap the company may appear at the moment, I would rather sit on the sidelines for the next few weeks until after the Q4 results are announced and direct my attention to other opportunities.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:HLF (High Liner Foods Incorporated)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2019/01/25
Author
dafxentiou