1 Defensive Growth Stock to Own Today

Description

Buying companies with strong, recognizable brands is a strategy that many investors have employed over the years. These companies are frequently more stable than others, such as commodity companies, which are reliant on the market price of a particular product. With strong brands comes pricing power.

Premium Brand Holdings Corp. (TSX:PBH) owns a number of meat, pasta, and other packaged food brands. Many of these are well known, like Pillar's Deli Products and Duso's pasta. The company distributes its products through retail grocery stores and its food service distribution business.

The company has been growing both organically and by acquisitions for a number of years. In 2018, PBH acquired the U.S.-based lobster processor and distributor Ready Seafood Co., the Canadian fresh and frozen chicken producer Yorkshire Valley Farms, and Obertero's Meat Snack business. These acquisitions have added to the depth and breadth of premium brands offerings.

The increased number of brands has also led to an increase in PBH's financials. In the third quarter of 2018, PBH announced record results. Revenue increased by 49.8% over the previous year. Although much of the increase was due to acquisitions, a healthy 5.4% of the increase represented organic growth.

EBITDA for the quarter was equally impressive, increasing by 44% year over year. Adjusted earnings were up 21.8% as well. Free cash flow increased 17% year-over-year, leaving plenty of cash for debt repayment, dividends, and potential dividend growth.

With a respectable dividend of 2.45%, PBH is suitable for an income investor. The payout ratio remains low at 38.7% of free cash flow. At this level, the dividend should remain secure and provide plenty of cash for future dividend growth.

PBH is one of those companies that provide decent growth and portfolio security. The nature of its business as a seller of consumer staples also gives investors a layer of safety against possible recession risks. While other companies may require people to spend their discretionary income, PBH's products are focused on food, a basic need that people cannot do without.

Unfortunately, there's always a wrinkle when it comes to investing. For PBH, the problem resides in the same place from which it gained its success: its acquisitions. In order to purchase brands and expand its offerings, the company had to take on a large amount of debt. At the moment, the debt is manageable and the purchases have been accretive. But the fact remains that companies that grow through acquisitions can run into trouble if debt runs out of control. Investors should therefore watch its debt levels carefully.

PBH is also not cheap at price to earnings of 28 times trailing earnings. At least the stock price has come off significantly, dropping from its 52-week high of $122 a share to the mid-$70s where it remains at the moment.

As a dividend growth play, PBH is a good defensive position to hold. Even with economic risks, people are less likely to stop buying the consumer staple products this company sells. If you keep in mind its debt levels, this company would be a good addition for a long-term defensive hold, especially at these reduced share price levels.

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