# Premium Brands Holdings Corp (TSX:PBH) Could Be a Dividend Machine in 24 Months

## Description

Are you looking for a limited-time opportunity to buy into a proven, long-term winner? After a decade of consistently rising prices, shares of **Premium Brands Holdings Corp** (TSX:PBH) are now on sale.



From 2008 to 2018, Premium Brands stock rose by more than 1,000%. That makes the past 12 months an anomaly, with shares falling by around 35%. However, the fundamentals remain strong, and patient investors need to take a closer look.

Here's what you need to know.

### You're buying a long-term compounder

Premium Brands has a long history of success. Over the past 15 years, it's proven its ability to grow both sales and cash flow, creating massive amounts of value for shareholders.

Since 2004, the company has grown sales from $0.2 billion to $2.4 billion; increased EBITDA from $14.1 billion to $194.9 million; expanded its presence from Western Canada to the entirety of North America; quintupled free cash flow per share from $0.78 to $4.17; and paid out dividends totaling more than $350 million.

All of this success came from the company's dominance in the specialty food industry.

Like its American peer, **McCormick & Co**, Premium Brands has found a way to create high-margin products out of commoditized ingredients. It sells value-add food products made of beef, poultry, seafood, cheese, lamb, popcorn, and much more. The company sells these products through its fully-owned portfolio of valuable brands, such as Oberto, Deli Chef, and Country Prime Meats.

Long term, Premium Brands aims to grow revenues by an average of 6% to 8% per year. Yet from 2010 to 2017, it managed a growth rate of 23% annually. Last year's results were even better,with sales growing by more than 30%.

This growth has been fueled by a consistent focus on acquisitions. Since 2016, the company has expanded its portfolio by acquiring more than $500 million in assets. Nearly every year brings more valuable brands into Premium Brand's valuable distribution network.

The value proposition is clear: these brands have more value to Premium Brands than to their original owners. By aggregating their purchasing and brand power, Premium Brands can extract multiple times the profits per brand than these assets could garner as stand-alone businesses.

## Get ready for big dividend increases

Since 2006, Premium Brands has paid out a consistently growing dividend. Currently, the stock yields just 2.4%, but there are several reasons why investors should expect this to grow considerably over the next 24 months.

From 2007 to 2011, dividends composed between 60% and 80% of free cash flow. As free cash flow ramped considerably, however, dividend growth failed to keep up. Today, dividends compose less than 40% of free cash flow. The company could easily double the payout—resulting in a 4.8% yield—without endangering its growth initiatives.



While the doubling won't occur overnight, expect management to focus more on delivering excess cash flow to investors in the coming years.

The best time to buy a high-yield dividend stock is usually before the market catches on. Most income investors aren't paying attention to this 2.4% yield, but with time, Premium Brands could become an income-producing machine.

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