Is This Wine Stock Recession-Proof?

Description

Late last week, investors were treated to a broad but brief panic surrounding the 10-year U.S. Treasury yield curve inversion. This suggests that there is a 25-30% chance of a U.S. recession over the next 12-18 months. Canada soon joined the U.S. as the yield on its 10-year bond slipped to 1.57% on March 25. This inversion has not occurred since 2007.

Canadian economic data has not been particularly encouraging in recent months. A crisis in the oil patch dragged down growth projections below 2% for 2019, and this slow pace is expected to continue into 2020. If the situation deteriorates to the point of recession, how should investors react?

To start the year, I warned investors about economic headwinds and advised them to invest accordingly. One subcategory I'd focused on was sin stocks. These stocks tend to deal in alcohol, tobacco, gambling, or the newcomer cannabis. Today, we are going to focus on the wine market and a top Canadian company navigating this volatile industry.

So-called sin industries have been robust in comparison to others during difficult economic times. This is not to say that they do not suffer turbulence during these periods, but the decline may be less pronounced than financials. Alcohol sales spiked in the United States and Canada in 2008 and 2009, but alcohol stocks still struggled. The North American wine market has posted impressive growth since the early 1990s. Increased millennial consumption has played a big part in its growth in recent years, but this is expected to slow into the next decade.

Liquor stores, agencies, and other retail outlets sold $7.2 billion worth of wine during the year ending March 31, 2017, which was up 3.1% from the prior year. At this point, wine made up 32% of all total alcohol sales. Crucially, the growth in volume of Canadian wine at 3.7% outpaced that of imported wine at 0.5%. Imported red wine sales have dropped nearly 3% from 2007/2008 as domestic producers have ramped up marketing.

Andrew Peller (TSX:ADW.A) is an Ontario-based wine-producing company. Shares have dropped 6.8% in 2019 as of close on March 26. The stock is down 30% from the prior year. Andrew Peller stock has steadily dropped since reaching all-time highs in March 2018.

The company's results have been very positive in recent quarters. It released its fiscal 2019 third-quarter results on February 6. Sales rose 6.3% year over year, largely fuelled by recent acquisitions. Adjusted EBITDA was down from the prior year as Andrew Peller has moved to invest in brand development, system planning, and production efficiency.

Andrew Peller is expected to release its fourth-quarter results for fiscal 2019 on June 6. The stock is still trading at the low end of its 52-week range. It last had an RSI of 36, which puts it just outside of oversold territory. Andrew Peller's year-over-year share price decline has been unwarranted, and investors should search for entry points going forward. Late December was one such opportunity, and renewed anxiety in late March should present more buying opportunities in the spring.

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