



This Canadian Wine Company Offers Great Value in a Growing Industry

Description

The wine business in Canada is a lucrative industry. It continues to grow each year, as wine becomes trendier and offers increased health benefits in relation to other alcoholic beverages. Statistics show that wine is continually becoming more popular among consumers, especially younger drinkers. In Canada, wine has steadily increased its market share of the alcoholic drink industry to nearly 30%.

The Canadian wine industry is separated into two distinct consumer groups: the lower-cost option of local budget wine and higher-end wine for those consumers who are willing to pay a premium.

One of the largest Canadian wine companies that is exposed to both consumer segments has been growing rapidly and has significant market share in Canada is **Andrew Peller** ([TSX:ADW.A](#)).

Growth through acquisition

[Andrew Peller](#) started his company in the wine business in 1961 as Andres Wines. Through small acquisitions, the company grew to have wineries in various provinces across Canada. As the company continued its growth, it has been passed through the Peller family and the vision for the future has remained the same.

In more recent years, the company has made a number of acquisitions, building its portfolio of wineries. Since 1995, the company has done 17 acquisitions worth over \$200 million. Andrew Peller now has numerous wine brands in its portfolio as well as other related companies.

It has operations with well-known brands in Canada such as Wayne Gretzky Estates, Thirty Bench Wine Makers, Black Hills Estate Winery, Gray Monk, Sandhill, and more, as well as owning its own import agency.

Andrew Peller has vertically integrated itself by opening The Wine Store across Ontario. The Wine Store has 100 proprietary stores in Ontario. This is Andrew Peller's own retail store selling only Peller-branded wine. It offers consumers a wide variety of choices all from select labels the company owns and is located in convenient places, such as grocery stores or high-traffic shopping plazas.

Since it only sells Peller-branded wine, the company is able to drive an increase in the sale of its products while improving the total margins for the company. It also owns the store Wine Country Vintners with two locations in the Niagara region of Ontario.

Past performance

For the company, overall sales have increased every year for the last decade. The profitability remains consistent too, with return on equity consistently between 10% and 15%. The company has been earning these impressive returns while keeping the leverage ratio below two.

In addition to the improved sales and return ratios, the company has done an impressive job growing shareholder value through the increase in per-share book value. In the five years from the end of 2013 to the end of 2018, the company increased its per-share book value by almost 67%. Furthermore, the company returns cash to shareholders through a dividend that currently yields ~1.5%.

Strategies for future growth

The company believes that over the long term higher-priced premium wine will continue to grow in Canada, offering producers better margins and increased profitability. It has also begun to diversify into other growing drink categories by entering the spirits category through its strategic partnership with Wayne Gretzky. It's now begun to sell sangria and ciders through its own brand labels.

Wine consumption has been increasing in Canada, as younger users now like it as their alcohol beverage of choice, and older users are more commonly shifting to premium wine. In addition, new medical studies indicating moderate levels of wine can improve health have also led to an increase in demand.

The company plans to continue to expand its product offerings to more than just wine. Wherever Andrew Peller can use its knowledge of the industry and its brand, it plans to continue to seek growth opportunities that exist.

Bottom line

Andrew Peller Limited is a very well-run company that has its roots in the Canadian wine business and has proven it can continue to grow and acquire other brands that fit the company's plan and vision. The stock has come off its 2018 highs, offering investors a fair price to get in and hold for the long term.

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