



To Buy or Not to Buy These 2 Canadian Stocks?

Description

Let's pretend we're playing the part of Detective Columbo at a party. We're wearing our best light-brown raincoat, and we're out to chat with people. One of them is called **Burcon NutraScience** ([TSX:BU](#)), but you can call it Burcon for short.

Standard chit-chat ensues. Where are they from? They're based in Vancouver, British Columbia. They've been there 21 years and have loved every minute of it. What do they do? They manufacture nutritionally superior plant-based proteins.

How did they get started in the plant-protein business? Burcon was formed as a venture capital pool corporation. Their principal mission was to identify and acquire assets. In 1999, Burcon acquired BMW Canola Inc. based in Winnipeg.

You learn that most of Burcon's business was research and development and licencing the 262 patents it owns.

The party's in full swing now. Burcon says how excited they are they have entered a joint venture partnership called Merit Functional Foods Corporation, and they will build a \$65 million production facility in Western Canada. They will process 20,000 tonnes of peas per year by mid-2020. They go on to boast their joint venture investor group partner has put up to \$16 million towards the project.

High Liner Foods ([TSX:HLF](#)) walks into the party, spots you and comes over to say hello. Based out of Lunenburg, Nova Scotia, they process and market frozen seafood. They sell their foods to grocery stores, institutions, and fast-food companies in Canada, the United States, and Mexico.

How's business? It's been a bit of a struggle of late. [Sales dropped](#) by \$20 million in 2018. Demand for its signature breaded and battered whitefish products has weakened. Its stock price dropped 50% in the last two years.

What's HLF's plan to turn things around? Their strategy revolves around cash flow improvements. With the retirement of chairman of the board and chief executive officer Henry Demone in May 2019, HLF will reduce their board size from 11 to 10. They've [realigned staffing](#), which led to a 14% drop in costs

for salaried positions. They reduced dividends by \$0.05.

HLF said its five-point turn around plan is yielding results. Next, cash flow in Q1 2019 increased by \$18 million, a doubling since Q1 2018. How much of the cash flow is from increased sales? The short answer is none. Sales continued to drop and decreased by \$41.8 million between Q1 2018 and Q1 2019. Gross profit is down \$4.5 million.

How do they feel? Hopeful. They've got a solid plan that's improving cash flow. They've hired a consulting company to identify cost-saving opportunities. They will use that money to reduce and refinance that company's debt. Saving money is good, but there is little talk about how to drive sales. Their markets are shrinking, and they aren't addressing that critical business element. That worries you, but you keep it to yourself.

You take a cracker from a platter, pop it in your mouth, and look at Burcon. One more question: What are their revenues for 2018 ending in March 2019? Burcon says \$40,000. What were their revenues in the previous year? They reply \$49,000.

A long silence stretches between you and Burcon, and you retain a pleasant expression. What were the net losses for the 2018 year that ended on March 31, 2019? You keep your tone light. At the end of the last reporting year, the company had an accumulated deficit of \$92,481,436.

How's the stock performed in the 20 years since the company's been around? Well, it peaked in the \$5 range in 2011, but for most of its 20-year existence, the stock's been bouncing between \$1 and \$2.

Before you break away from the conversation to chat with other guests, you ask another question: How can they turn a profit when other larger players are struggling to turn a profit with their plant-based proteins? Loud music drowns out Burcon's response.

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