



1 Under-the-Radar Growth Stock to Buy Immediately

Description

Lobster exports to China have skyrocketed in recent years, thanks to U.S. lobster wholesalers and industry representatives doing an excellent job of promoting the delicious crustaceans at Asian trade shows and to Chinese hotels.

Canada's Atlantic lobster is its most valuable and best-known seafood export

China imposed tariffs of 25% on U.S. seafood in retaliation for tariffs imposed on Chinese exports by the Trump administration. Since that imposition, seafood imports from the United States have fallen off the table.

China has opened the door to the rest of the world by lowering tariffs with other countries — even as its trade war with the U.S. continues to drag on. The tariff problem is a very good situation for Canada. The reality is that the Nova Scotia lobster is as equally coveted as the Maine lobster once was. The cold waters in both parts of the world produce the same wonderful sea treats.

There are several interesting aspects to this situation. The changing climate appears to be pushing lobster further north. According to certain reports, two decades ago the centre of the American population of lobster was south of Cape Cod, Massachusetts. Ten years later, it was in the south of the Gulf of Maine. Reportedly, today the centre is in the north of the Gulf of Maine, and the population is rising in the Gulf of St. Lawrence.

Canada may see more plentiful harvests of lobster in the future, but the question is, will they be able to meet demand? [One company that has taken action](#) to secure supply is **Premium Brands Holdings (TSX:PBH)**.

Premium acquired Ready Seafood in Portland, Maine, in September as part of a massive \$753 million, 12-transaction acquisition spree in 2018. Ready came with three production facilities and handled 15 million pounds of lobster annually, generating \$129 million in annual revenue based on reports.

An intelligent investor might say that Premium went acquisition crazy in 2018. That statement might be an understatement. The acquisition of Ready brought Premium's seafood assets to more than \$400 million in annual sales. The Canadian company could grow its annual seafood revenue to \$1 billion in the future.

Growing that quickly is possible because Premium remains in a strong position of liquidity. The company could still make more buys. The CFO noted that Premium had almost \$220 million of unutilized capacity on its credit facilities in the fourth-quarter call of 2018.

A long-term compounder

[Premium Brands has a long history of success](#). The company's major growth initiatives in seafood, protein, and sandwiches are on or ahead of plan and are expected to result in accelerated growth in the second half of the year

After the second quarter of 2019, the company declared a quarterly dividend of \$0.525 per share, which is excellent. The stock market has not yet realized Premium's capability to increase dividend income to investors in the coming years. Now is the time to analyze and predict that capability. The 2019 second-quarter numbers on this company are impressive.

Premium posted record revenue of \$945.4 million, representing a 24.1%, or \$183.9 million, increase as compared to the second quarter of 2018.

Record adjusted EBITDA of \$88.3 million, representing a 19%, or \$14.1 million, increase as compared to \$74.2 million in the second quarter of 2018. After normalizing for the adoption of the new IFRS-16 accounting standard and unusual transitory challenges relating to weather and the outbreak of African Swine Fever in China, the company's adjusted EBITDA for the second quarter of 2019 is \$90.1 million

With an aggressive acquisition strategy and the ability to finance that direction, Premium could easily retain and strengthen its powerful position in the space it occupies. The trade war will only help the company. More important than the trade war is something significant to both Premium and Ready — sustainability.

Demand for seafood is growing exponentially. Both companies have a good record on their practices and treatment of the resource and the environment. Sustainable practices should bode well for the new combined company and the stock. Premium is a good "catch" for investors.

CATEGORY

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1. TSX:PBH (Premium Brands Holdings Corporation)

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