



Will Shares of This Seafood-Processing Company Continue to Move Higher in 2019?

Description

Shares of **High Liner Foods** ([TSX:HLF](#)) have gained close to 50% year to date. HLF stock has returned 35.5% in the last 12 months. However, the stock has lost close to 50% in market value since October 2014.

High Liner Foods is a North American seafood-processing and -marketing company. It sells branded products under the High Liner, Fisher Boy, Sea Cuisine, Icelandic Seafood, FPI, and C. Wirthy & Co. labels to North American food retailers and distributors.

A look at HLF's growth and valuation

HLF had managed to increase revenue from \$956 million in 2016 to \$1.054 billion in 2017. Company sales, however, fell to \$1.049 billion in 2018 and is estimated to decline by 10% to \$944 million in 2019.

The company will return to sales growth in 2020, as revenue is expected to rise marginally to \$945 million. HLF's earnings growth is expected to rise by 43% to \$0.73 in 2019 and be flat in 2020. It has a dividend yield of close to 2%.

Comparatively, HLF stock is trading at a forward price-to-earnings multiple of 15 which seems a tad undervalued looking at its earnings growth going forward. But investors are right to be skeptical when a company is experiencing a decline in sales.

High Liner Foods is confident about long-term sustainability. The company has an established market position and scale in North America. It has strong relationships across the supply chain and is well positioned to grow demand across categories with a strong go-to-market platform.

High Liner will return to organic growth in 2020. It is focusing on organizational realignment, which will result in annualized cost savings in excess of \$10 million.

HLF's revenue stabilization will also improve the bottom line. Analysts expect company EBITDA to

improve from \$62.5 million in 2018 to \$75.2 million in 2020, while operating profit is estimated to rise from \$44.5 million to \$52 million in the same period.

Where HLF is winning?

HLF wants to simplify the process of selecting and preparing seafood for customers. It does so by leveraging expertise in procurement and frozen food logistics. HLF also has an internet-based information management system to make operational processes simpler.

According to its press release, HLF is “recognized as a global leader in driving best practice improvements in wild fisheries and aquaculture and have achieved 99% of our strategic goal to sustainably source all of our seafood.”

HLF claims to have relationships with every major supermarket chain, foodservice distributor, and club store in the United States and Canada.

The verdict

While it looks like HLF is on the cusp of a turnaround, the 35% gain witnessed in 2019 might make investors cautious. Further, High Liner Foods will also be impacted by the tariff war, as the U.S. government increased import tariffs from 10% to 25% in May 2019 on limited species on food sold by the company. There were concerns over the stock's decline in [market value earlier this year](#). However, it has easily outperformed markets.

But the stock should be on investor radar due to its cheap valuation and significant upside potential. HLF is valued at \$364 million, which is 0.38 times 2019 sales. Analysts tracking HLF have a 12-month average target price of \$7.07, which is 35% below its current price.

CATEGORY

1. Dividend Stocks
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