
# A Stock to Hold for 100 Years

## Description

**High Liner Foods** (TSX:HLF) engages in the processing and marketing of prepared and packaged frozen seafood products in North America.



The company provides a broad variety of frozen seafood products, such as raw fillets and shellfishes; cooked shellfishes; and value-added products comprising sauced, glazed, breaded, and battered seafood products, as well as seafood entrées.

It also produces breaded cheese sticks and breaded chicken; and imports and distributes frozen seafood products. The company sells products under the High Liner, Mirabel, Icelandic Seafood, FPI, Fisher Boy, Sea Cuisine, C. Wirthy & Co., and FPI brand names.

It markets products directly as well as through distributors to retail and club stores; and through food service distributors to hotels, restaurants, and healthcare and educational organizations. High Liner Foods was incorporated in 1899 and is headquartered in Lunenburg, Ontario.

The company trades a reasonable price in relation to long-term prospects with a price to earnings ratio of 16, a price to book ratio of 1.12 and market capitalization of 308 million.

Debt is moderately high and the company has debt to equity ratio of 1.22. The company has average performance metrics with an operating margin of 4.7% and a return on equity of 7.09%.

The company realizes efficiencies by sourcing seafood from around the world. Suppliers of High Liner Foods are required to catch or farm seafood responsibly, protect against overfishing, limit impacts on the natural environment, treat employees well and uphold high worker safety and social standards.

The company procures dozens of species from countries all over the world and offers product diversity based on evolving consumer trends. High Liner Foods recently engaged in a "Business Simplification" initiative to review the entire product portfolio through the eyes of the latest in market trends, customer expectations and financial analytics.

The initiative was aimed at identifying species that have the most potential among food service and retail customers. The company is also working on removing unnecessary complexity, simplifying raw materials, ingredients and packaging in order to focus on margins, growth potential and the overall customer experience.

High Liner Foods expects net debt to earnings before interest, tax, depreciation and amortization (EBITDA) to improve in 2020 as a result of growth in EBITDA, improved cash flow management and the dividend reduction announced in May 2019.

The stock market’s concerns of 25% import tariffs on High Liner Foods appears to be overstated as only limited company products will be affected and no significant financial impact is expected.

The company expects pricing and supply of seafood raw material for the products sold to remain relatively stable throughout the remainder of 2019 and 2020.

The company appears to be a good way for retail investors to get portfolio exposure to the food processing market. Management’s decision to cut the dividend was a prudent one to ensure sufficient cash at hand to meet obligations.

Although the company is loss making, successful execution of the Business Simplification initiative should result in a higher valuation of High Liner Foods. The company is now focusing on the customer and this should serve long term shareholders well.



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**Date**

2025/08/15
**Date Created**
2019/11/19
**Author**
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