



TFSA Investors: Hold This Value Stock Forever and Retire Early

Description

Premium Brands Holdings ([TSX:PBH](#)) is an [investment platform](#) focused on acquiring and building food businesses in partnership with talented entrepreneurial teams. The company owns specialty food product manufacturers with strong proprietary brands and leading niche market positions.

The company is fairly valued with a price-to-earnings ratio of 33.36, price-to-book ratio of 2.86, and market capitalization of \$3.11 billion. Debt is aggressively used at Premium Brands to make opportunistic acquisitions, as evidenced by a debt-to-equity ratio of 1.18. The company has average performance metrics with an operating margin of 5.24% and a return on equity of 9.17%.

In making an acquisition, the company looks for key characteristics of a great specialty food business. These include consumers' decision to purchase products based on factors other than price and whether the business caters to niche-oriented markets. The company believes that specialty food businesses generally earn higher and more consistent selling margins relative to other types of food-manufacturing companies and avoids directly competing with large national and international food companies. Furthermore, due to a variety of consumer-related trends impacting the food industry, the company believes that these businesses also tend to generate higher sales growth rates, as compared to large national and international food companies.

The company also looks for key characteristics of a [premium food-distribution business](#). This includes the ability to offer customers specialized products and services in addition to logistical solutions. The company believes that this would enable the company to generate higher and more consistent selling margins relative to the large national and international food distributors that are primarily focused on logistics.

The company's premium food-distribution businesses enables it to generate and sustain additional margin by using these businesses to provide specialty food businesses with proprietary access to a broad and diversified customer base that includes regional and specialty grocery retailers, restaurants, hotels, and institutions.

The company's Specialty Foods division revenue for Q3 2019 increased year over year by \$52.3

million, or 9%, due to organic volume growth, business acquisitions, foreign exchange, and price inflation. Adjusted earnings before interest, tax, depreciation, and amortization for Q3 2019 increased by 18% on a year-over-year basis. Results were below expectations due to lower-than-projected gross margins in the company's Specialty Foods division. The company expected selling price increases to result in the recovery of a portion of the margin lost in that quarter due to a sudden and dramatic rise in pork commodity costs. This, however, did not happen due to significant appreciation in the cost of specialized raw materials being sourced from Europe.

The company also disappointed investors by reporting lower-than-normal margins on certain fixed-priced lobster promotions with several major U.S. retailers due to an unexpected run up in the cost of lobsters and the impact of slower-than-planned ramp up associated with a variety of new sales initiatives.

Overall, this looks like a case of a great business selling at a temporarily depressed price. There is significant unrealized value in the company's portfolio of businesses.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:PBH (Premium Brands Holdings Corporation)

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Category

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