



Attention: Add This 1 Stock to Your Watchlist NOW!

Description

Andrew Peller (TSX:ADW.B)([TSX:ADW.A](#)) produces and markets wine, spirits, and wine-related products. Its products are produced and sold predominately in Canada. The company's brands include Peller Estates, Trius Winery, Thirty Bench, and Wayne Gretzky to list but a few.

The company reports a market capitalization of \$530 million with a 52-week high of \$15.40 and a 52-week low of \$11.49.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that Andrew Peller has an intrinsic value of \$11.33 per share. Assuming less-than-average industry growth, the intrinsic value would be \$10.31 per share, and higher-than-average industry growth would result in an intrinsic value of \$12.56 per share.

At the current share price of \$12.05, I believe Andrew Peller is slightly overvalued. Investors looking to add a winery to their RRSP or TFSA should follow Andrew Peller's stock through 2020, as a market contraction could push the share price below intrinsic value, which presents an [opportunity to buy](#).

Andrew Peller has an enterprise value of \$656 million, which represents the theoretical price a buyer would pay for all of Andrew Peller's outstanding shares plus its debt. One of the good things about Andrew Peller is its leverage, with debt at 23% of total capital versus equity at 77% of total capital.

Financial highlights

For the six months ended September 30, 2019, the company reported a strong balance sheet with \$222 million in retained earnings, up from \$210 million in 2018. This is a good sign for investors, as it suggests the company's surpluses over the years have been reinvested into the company.

The company reports nil cash with \$52 million in short-term debt obligations. This is not a concern

given the company's \$310 million credit facility (36% utilization rate), however, I would like to see a company with this history have enough cash on hand to meet its current debt obligations.

Overall sales are relatively flat year over year at \$199 million in 2018 and 2019. On a positive note, costs for goods sold are down to \$110 million from \$113 million, which has resulted in gross profit of \$85 million (gross profit margin of 43%). If the company makes a concerted effort in finding operational efficiencies, I believe it will greatly help its bottom line. Net earnings are stable year over year at \$16.4 million.

The company is a dividend-paying entity with a current dividend yield of 1.48%, which equates to \$0.0538 per share paid quarterly. Andrew Peller's dividend has increased steadily over the past few years, which is a good sign for investors, as it suggests further increases are likely in the future, all things being equal.

Foolish takeaway

Investors looking to buy shares of a winery should consider adding Andrew Peller to their RRSP or [TFSA watchlist](#). With positive retained earnings and consistent net income, Andrew Peller is a financially stable company, which will deliver good returns to shareholders in the future.

At its current price of \$12.05, I believe Andrew Peller is trading slightly above its intrinsic value of \$11.33. I advise interested investors to follow the stock into 2020 and wait for an opportunity to buy shares at less than intrinsic value.

With debt at 23% of total capital compared to equity at 77%, the company is well positioned to continue growing.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ADW.A (Andrew Peller Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
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Author
cliu

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