TFSA Investors: Buy and Hold This 1 Stock for Life!

### Description

**High Liner** (TSX:HLF) is engaged in the processing and marketing prepared and packaged frozen seafood products. The company sells its products to institutions, health care facilities, and quick-service family and casual dining establishments.



The company's sole operating segment is the manufacturing and marketing of prepared and packaged frozen seafood. It derives the majority of its revenue from the United States. High Liner reports a market capitalization of $282 million with a 52-week low of $6.52 and a 52-week high of $12.

## Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that High Liner has an intrinsic value of $26.54 per share. Assuming less-than-average industry growth, the intrinsic value would be $23.73 per share, and higher-than-average industry growth would result in an intrinsic value of $29.90 per share.

At the current share price of $8.45, I believe High Liner is significantly undervalued. Investors looking to add a seafood manufacturer to their TFSA should look into buying shares of High Liner.

High Liner has an enterprise value of $1.25 billion, which represents the theoretical price a buyer would pay for all of High Liner's outstanding shares plus its debt. One of the things to note about High Liner is its leverage, with debt at 56.6% of total capital versus equity at 43.4% of total capital.

## Financial highlights

For the year ended September 28, 2019, the company reported a strong balance sheet with $166 million in retained earnings, up from $161 million as at December 29, 2018. This is a very good sign for investors as it suggests net income from previous years have been reinvested to fuel the company's growth.

High Liner reports cash and equivalents of $25 million with $11 million in short-term debt obligations. This means the company has enough cash on hand to cover its current liabilities. I am partial to companies that are able to achieve this as it indicates fiscal responsibility on the part of management.

Overall revenues are down materially to $721 million in 2019, compared to $806 million in 2018 (-10.6%) for gross profits of $141 million (gross profit margin of 19.6%). Pre-tax income continues to be strong at $19 million although this is less than 2018 pre-tax income of $25 million.

The company is committed to reducing its debt load (which is a very good idea since 56.6% of its total capital consists of debt) as indicated by a $31 million pay down of bank loans and a $14 million pay down of long-term debt in 2019. In 2018, the company made a $27 million pay down to bank loans.

High Liner is a dividend-paying entity with a dividend yield of 2.38% which is achieved through a quarterly dividend payment of $0.05 per share.

## Foolish takeaway

Investors looking to buy shares of a frozen seafood manufacturer should consider buying shares of High Liner. From a financial perspective, the company is strong with positive retained earnings and enough cash on hand to cover its current debt obligations. This is offset by declining revenues and high leverage with debt accounting for 56.6% of the company's total capital.



At a current price of $8.45, I believe High Liner trades at a steep discount compared to its intrinsic value of $26.54 and investors have the chance to achieve as much as 213% gains.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. TSX:HLF (High Liner Foods Incorporated)

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1. Investing

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