TFSA Investors: This Staple Stock Just Hit a Very Compelling Buy Point

Description

When you think of consumer staples, your mind likely wanders to products found in supermarkets, mainly the kind of things we buy on a weekly basis. After all, it's hard to survive without food.

But I'd like to broaden that definition a bit. After all, each of the main soda makers are considered consumer staples, and nobody would argue we need soda to survive. It's the same thing with many companies that make processed food — items nutritionists now insist are unhealthy.

Whenever I go to a gathering at someone's house, or even at a restaurant, I know a bottle of wine will be cracked open at some point. Although the beverage seems to be more popular with the female half of my friends group — the men prefer beer — a tiny bit of research suggests it's a popular beverage with everyone.

When a staple stock reaches a 52-week low, that's enough to cause me to pay attention. So let's take a closer look at Canada's wine leader to see whether the stock is a true bargain or one of those dreaded value traps.

The skinny

Andrew Peller Limited (TSX:ADW.A) owns a plethora of wine brands found at liquor stores across Canada. Brands include Peller Estates, Sandhill, Trius Winery, and Wayne Gretzky Estates, a partnership with the greatest hockey player of all-time.

It doesn't get much more Canadian than that, does it?

The company has posted solid growth over the last few years, both from launching its own new brands and acquiring others. Revenue hit $380 million in fiscal 2019, an improvement of some $90 million since 2013. Adjusted profits have increased even faster, more than doubling during that period.

Unfortunately, recent results haven't been quite as good. In its most recent quarter, Andrew Peller told investors sales were slightly lower than last year, although profitability was up.

The company also indicated that it would be taking steps to accelerate sales growth over the next few months, including launching a number of new brands. It has also recently expanded outside of the wine area into craft beer, another growth avenue.

Investors are concerned the issues impacting the beer business could soon repeat themselves with wine. Many of Canada's top beer brands are slowly shrinking as customers cut out alcohol or switch to craft beers.

There's also a ton of competition in the wine industry from imports, which could very well hit Andrew Peller hard. Investors are worried, which is why shares are at a 52-week low.

The good news is Andrew Peller's profitability continues to remain strong. Gross margins have held up well, and actually increased during the company's most recent quarter.

Analysts project that it'll earn $0.60 per share in fiscal 2020, boosting the bottom line to $0.71 per share in 2021 and putting shares at just 15x next year's earnings, a pretty reasonable valuation for a staple stock.

Finally, let's talk about one reason why many investors like Andrew Peller shares — which is the company's dividend. It has paid consistent dividends since 1979 and has hiked the payout each of the last seven years. The payout was just increased to $0.215 per share on an annual basis, which works out to a yield of just over 2%.

The bottom line

Investors should remember that this $10.70 stock traded as high as $15 just a year ago, and was flirting with $20 back in 2018. There's significant upside here if the company can shake off these short-term issues and return to growth mode.

And as wine is such a staple, it should also provide solid downside protection. That's the kind of combination that would look good in any portfolio.

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