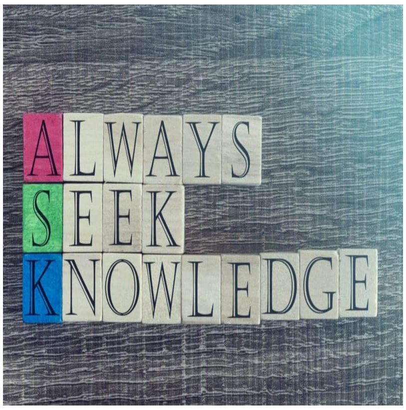

Know This Before You Buy Premium Brands Holdings (TSX:PBH) Stock

Description

Markets have never been as confusing as they are now. The COVID-19 outbreak has led to a high degree of uncertainty in the market, making it difficult to predict what will happen next. Such an uncertain environment calls for buying defensive stocks like **Premium Brands Holdings** (TSX:PBH) to add stability to your portfolio.

Premium Brands Holdings is a leading manufacturer of packaged food. The company's offerings are deemed essential, implying that it would continue to witness steady demand irrespective of the economic situation. However, before you rush to buy Premium Brands Holdings stock, you should know this.

Bleak Q2 outlook

Premium Brands Holdings reported exceptional numbers for the first quarter of 2020. The company's organic sales, adjusted EBITDA and adjusted net earnings grew at a stellar rate. However, weak Q2 guidance was a dampener.

The company's Q1 revenues marked 20.4% year over year growth thanks to the strong organic sales. Higher volumes led by a spike in retail channel sales and an increase in net price realizations drove the company's top line.

Adjusted EBITDA registered 6.6% growth, reflecting higher revenues and lower commodity prices. The company's adjusted net earnings jumped 13.1%.

While these numbers look impressive, Premium Brands Holdings is guiding for weak Q2. The company's sales to the food service industry like fine dining restaurants and cafes have taken a hit due to the temporary shutdowns.

Moreover, sales to the air and cruise lines have also gone down. Furthermore, reduced exports and lower domestic demand for live seafood remains a drag.

On the operational front, supply-chain disruptions and the temporary closure of production facilities are adding to its woes. Besides, the additional costs related to the safety procedures is likely to hurt margins.

High valuation

Premium Brands Holdings stock trades at a higher valuation when compared to the industry average. Premium Brands Holdings is trading at next 12-month EV-to-EBITDA ratio of 14.8, which is significantly above the industry average of 7.7.

Also, it's trading at the next 12-month price-to-earnings ratio of 27.7, which is even higher than the industry average of 18.6.

Now what?

Investors with a long-term view shouldn't worry much and continue to add Premium Brands Holdings stock. The company's diversified sales channel helps in mitigating near-term demand challenges. Besides, its decentralized business model helps in eliminating production disruptions.

Further, most of the headwinds that Premium Brands Holdings is currently facing are temporary and will dissipate soon.

The company has started to see a pick-up in demand from channels walloped by the COVID-19 pandemic. Despite the disruption, Premium Brands Holdings is sticking to its long-term guidance of generating $6 billion in sales by 2023.

The continued strength in the base business and accretive acquisitions position it well to generate healthy returns in the long term.

Also, Premium Brands Holdings has a strong dividend payment history and currently offers a respectable dividend yield of 2.7%. The company's payout ratio is about 44%, which is sustainable in the long run.

However, for short-term investors, Premium Brands Holdings stock might not be the best investment choice.

CATEGORY

1. Coronavirus

TICKERS GLOBAL

1. TSX:PBH (Premium Brands Holdings Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
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4. Sharewise

5. Yahoo CA

Category

1. Coronavirus

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