



TFSA Investors: Invest \$500 in This TSX Stock Right Now!

Description

The market has been unkind to a lot of sectors and companies. Caught unawares thanks to COVID-19, investors have suffered in the last three months. You would have seen a massive decline in your Tax-Free Savings Account (TFSA) portfolio, especially for investors with high exposure to the retail, airline, banking, or energy sectors.

The TFSA limit for 2020 stands at \$6,000 while the total TFSA contribution room is \$69,500. As the name suggests, any withdrawals from your TFSA in the form of capital gains or dividends are tax-free. The recent market correction provides investors an opportunity to identify quality stocks at a cheaper valuation for their TFSA.

High Liner Foods ([TSX:HLF](#)) is one such stock. It's a food processor company and this stock has fallen almost 25% in the last three months. The company recently announced its first-quarter results. Revenue decreased by \$8.8 million to \$268.6 million compared to \$277.4 million in the first quarter of 2019. Net income decreased by \$0.6 million to \$14.2 million compared to \$14.8 million in 2019.

As the pandemic unfolded across the world, businesses in the food services industry shut shop. However, retail customers started to stock up on groceries. High Liner was in a perfect position to meet this increased demand and ensured that its key consumer brands High Liner, Sea Cuisine, and Fisher Boy increased production.

As customers went online to shop for their groceries, the company increased presence with online retailers. High Liner Foods also pivoted to work with restaurants as they switched to takeout and delivery.

Is it time to allocate High Liner stock to your TFSA?

High Liner has been working aggressively over the last two months. For a company that's over 120 years old, it is surprisingly nimble on its feet. While there were cases of COVID-19 at one of its plants (Portsmouth), the company suspended production for a week and moved volume to other facilities. The Portsmouth plant is now running at full capacity.

High Liner has faced an increase in the cost of production, as it had to account for higher wages to frontline employees and extra spending on personal protective equipment, safety enhancements, and increased sanitation.

The company has sought to offset some of these costs by cutting down on capex in 2020. It says it will defer around \$6 million of the \$15 million it planned to spend in 2020. Most of these were for repairs on production facilities that are now postponed.

What next for investors?

There are a couple of areas of concern for High Liner's future prospects. Around 65% of the company's revenues come from the food services industry, including restaurants and schools. The longer these establishments stay closed, the greater the hit High Liner's top-line takes.

While there is a section of the food service industry where demand has stayed stable — the healthcare and long-term stay facilities — it would be unrealistic to expect High Liner to continue to deliver stellar numbers on the back of these businesses.

Net debt has increased by \$9.1 million to \$355.7 million and the net debt to adjusted EBITDA ratio is at 4.2 on March 28, 2020, compared to 4.1 at the end of 2019. The company has said that it is unclear whether the ratio will improve as it takes the potential impact of the pandemic into account.

A positive factor for the company is that it doesn't have any debt maturing in the coming 12 months. However, it only has \$29 million of net cash in hand plus a \$150 million unused credit facility. High Liner is [also committed to lowering](#) its debt load, giving it flexibility to reinvest profits for growth or increase dividend payments.

High Liner [announced quarterly dividends](#) of \$0.05 per share, indicating a forward yield of 3.1%. Analysts tracking the stock have a 12-month average target price of \$7.79 which is almost 20% above the current trading price.

Given the uncertainty surrounding COVID-19, this is a high-risk high-return investment.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HLF (High Liner Foods Incorporated)

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Date

2025/07/21

Date Created

2020/05/20

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