TFSA Investors: 1 TSX Stock to Buy Right Now With $6,000

Description

TSX stocks at large have been quick to recover and have soared almost 45% in the last 10 weeks. The economic recovery after the pandemic has not been that fast, but stocks are racing towards their pre-COVID-19 levels.

Amid these uncertainties, I think investors should shield their portfolios with high-quality defensive stocks. Apart from utilities and grocers, food-processing stocks can be quite effective as defensives.

TSX stocks: Non-cyclicals to protect from volatile markets

One stock that I particularly like in the food processing space is **Premium Brands Holdings** (TSX:PBH). Its superior growth and a broad range of specialty food products make it stand tall in the industry.

Premium Brands is a $3 billion company that manufactures specialty foods and operates a premium food-distribution business. It generates almost two-thirds of its business from Canada, while the rest comes from the south of the border. It owns and operates popular brands like Audrey's, Conte Foods, Deli Chef, Freybe, Expresco, Ready Seafood, etc.

The company has seen substantial growth, with its revenues increasing by 24% compounded annually in the last decade. This above-average top-line growth came from its business activities as well as through acquisitions. Since 2005, Premium Brands has completed 61 acquisitions.

Its peer **Maple Leaf Foods** was much slower when it comes to revenue growth. Premium Brands offers a broader range of brands compared to Maple Leaf Foods and generates higher margins.

Advantages and challenges

Premium Brands's Specialty Foods segment, which focuses on convenience and lifestyle, primarily caters to niche markets. Thus, consumers are more brand loyal, which enables higher margins and lower competition.

The COVID-19 pandemic had a slightly positive impact on its earnings during the first quarter. But it is expected to hamper the company's earnings significantly for the rest of the year. The shutdowns of cafes, restaurants, and air travel are expected to impact Premium Brands negatively in 2020.

However, the company aims for superior growth, and its long-term growth plans remain intact. It plans to expand in cooked protein, meat snacks, and seafood in the near future. The management expects its revenues to reach $6 billion by 2023, which is a compounded annual growth rate 12% — higher compared to the industry trends.

Stable dividend yield

Premium Brands stock currently offers a dividend yield of 2.7%, marginally higher than peer Maple Leaf Foods. Premium Brands has a long dividend payment history and has raised payouts in the last eight consecutive years. Its average payout ratio is close to 45%, which indicates a room for dividend growth for the future and safety in case of earnings slump.

From the valuation standpoint, Premium Brands stock is trading at a forward price-to-earnings multiple of 36 times, and Maple Leaf stock is at 31 times. Both these food processing stocks are trading at a premium, but I would still go with Premium Brands. That's mainly because of its higher growth potential and a solid dividend profile. Conservative investors can wait for a pullback or may consider buying in portions.

Interestingly, Premium Brands stock has notably outperformed Maple Leaf stock in the last 10 years. A $10,000 investment in PBH would have accumulated around $93,000 today, while MFI would have generated only $26,400.

Premium Brands's total return potential makes it an apt pick for the Tax-Free Savings Account (TFSA). However, it would be advisable to put the TFSA contribution in more than one stock in order to diversify .

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1. TSX:PBH (Premium Brands Holdings Corporation)

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vinitkularni20