



Primo Water (TSX:PMRW): Liquidity to Rise in 2022 From Recurring Revenues

Description

Investors are hooked on energy and basic materials stocks in 2022, but who wouldn't be, since the two sectors are the best performers thus far? Also, [commodity stocks](#) are in the limelight, because many people view them as portfolio diversifiers during high inflation.

However, for risk-averse investors, the choices aren't limited to oil producers or [metal miners](#). Water, a vital nutrient, is now traded as a commodity. **Primo Water** ([TSX:PMRW](#))([NYSE:PMRW](#)) isn't a celebrated name, but it's a [consumer staple](#) stock.

Pure-play water company

Water investments are available in the U.S. and Canadian stock exchanges, but are scarce. Primo Water is the only pure-play water company on the TSX, and the \$2.96 billion firm boasts a unique, sustainable drinking water solutions portfolio.

Cott Corporation was the original entity, until the rebranding and change in corporate name in 2020. Primo Water cater to customers in North America, Israel, and Europe. Its water solutions expand consumer access to purified, spring, and mineral water. Besides promoting a healthy, sustainable lifestyle, Primo aims to reduce plastic waste and pollution.

Recurring revenue model

Primo Water operates and takes pride in its recurring razor and razorblade revenue model. The razor revenue model refers to the industry-leading line-up of sleek and innovative water dispensers. The products are sold through major retailers and online. Under the razorblade model are the Water Direct, Water Exchange, and Water Refill business segments.

The Water Direct business is crucial, because it delivers sustainable hydration solutions across a 22-country footprint direct to the customers' doors, homes, or commercial businesses. Primo's Water Exchange and Water Refill businesses offer purified pre-filled water in multi-gallon format containers.

In North America, there are more than 13,000 locations in addition to self-service drinking water refill units in 22,000 locations.

According to management, the transition to a pure-play water company is only the first step on Primo's journey to enhancing value. It is confident the business strategy will enable long-term measurable success in support of its purpose and vision to become the leading brand in the pure-play water category.

2021 financial highlights

Tom Harrington, Primo Water's CEO, said, "2021 was a success for our pure-play water company. We achieved record levels of revenue and adjusted EBITDA driven by strong customer demand, especially in our Water Direct/Exchange business." In fiscal 2021 (year ended January 1, 2022), net revenue increased 6% to \$2.07 billion versus fiscal 2020.

Management reported a net loss of US\$3 million, or a 98% year-over-year improvement, from the US\$157 net loss in the previous fiscal year. For fiscal 2022, Primo expects revenue growth of 9-10%. The adjusted forecast includes the planned exit of the single-use retail bottled water business in North America.

Harrington added, "We remain confident in our long-term forecast for high single-digit organic revenue growth and annualized Adjusted EBITDA approaching \$525 million for 2024."

Ideal backup

Primo Water isn't a typical core holding or anchor in a dividend portfolio, although it's an ideal backup. At \$18.27 per share, the dividend offer is a modest but safe 1.90%. If you want exposure to one of the world's most essential resources, purchase this defensive stock.

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