



## What's Next for Premium Brands Stock?

### Description

Almost all [growth stocks](#) have lost sheen in the past six months. Rising interest rates and an absence of COVID-related growth triggers have pulled many of them down. Specialty food products company **Premium Brands Holding** ([TSX:PBH](#)) was no exception. Since last October, the stock has fallen 25% and is currently trading around \$100.

The company experienced flattish growth during the pandemic, but it soon recovered. Discretionary spending normalizing post-pandemic could drive demand for Premium Brands. However, fast-rising interest rates and valuation concerns could still weigh on the stock.

Let's see if PBH stock is a worthy bet for long-term investors.

## What does Premium Brands do?

Premium Brands is a \$4.6 billion company that operates through two segments, Specialty Foods and Premium Food Distribution. The first one manufactures food that focuses on convenience and lifestyle, while the Premium Food Distribution vertical takes care of its wholesale business and differentiated food distribution. The Specialty Foods segment contributes 60% of the total revenues, while Premium Foods contributes the rest.

The company has popular brands like Harvest Meats, Hempler's, Freybe, Expresco, Piller's, Deli Chef, etc., under its umbrella. It has Canadian operations in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, and Nova Scotia, and U.S. operations in Arizona, Minnesota, Mississippi, Nevada, Ohio, and Washington.

## Solid topline growth with thin margins

Its revenues and net income have grown by 22% CAGR in the last five years, resulting in a stock return of 25% in absolute terms. The TSX Composite Index returned 30% in the same period. However, in the last 10 years, PBH stock returned a massive 710%, while broader market returned a

mere 80%!

Though Premium Brands have shown a handsome topline growth in the past, it operates with thin margins and a large debt. The company could see additional pressure on its profit margins in the next few quarters, driven by rising raw material prices and fuel costs.

Notably, Premium Brands has been active on the inorganic growth front. Since 2005, it has invested \$2.8 billion across 77 transactions. These deals expanded its product portfolio and also contributed to higher revenues. As a result, Premium Brands expects to grow its revenues to \$6 billion by 2023, which would represent 16% growth.

## Dividends and valuation

PBH stock currently yields 2.8% and has been consistently paying shareholders since 2009. Along with a decent yield, PBH pays almost half of its earnings as dividends, indicating room for dividend growth.

PBH stock is currently trading at 25 times its earnings, which seems reasonable — not a steal — in relation to its average historical valuation. But keep in mind that if broader markets continue to sneeze, growth stocks like PBH might catch a cold.

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