DSR STOCK CARD

11/18/2019

HIGH LINER FOODS (HLF.TO)

Business Model

High Liner Foods Inc is a Canadian company which is mainly engaged in the processing and marketing of prepared and packaged frozen seafood products. The company sells its products to institutions, health care facilities, and quick-service family and casual dining establishments. It operates through a single segment being the Manufacturing and marketing of prepared and packaged frozen seafood. The company's foodservice brands include High Liner Culinary, Mirabel, FPI, Viking, American Pride, High Liner, Fisher Boy, Sea Cuisine and others. The company earns the majority of its revenue from the United States.

The Company in a Nutshell

- Due to its size and brand recognition, HLF benefits from great placement in each food store.
- HLF always focused on improving products. This works well to improve the variety of fish in families' menus.
- The company cut its dividend in early 2019 and tries to work its way out of its difficult situation.

Investment Thesis

There is an obvious trend to reduce red meat consumption and the seafood market should be among the best sectors to benefit from this. As cooking has become a hobby for many households, we are moving far from the classic fried trout in a pan with butter. Management is using its cash flow to make acquisitions and then pay off debts. Since the seafood category remains highly fragmented, there is a lot of room for growth by acquisition. The problem is that the last time management acquired a business, it was a total nightmare and it led to a dividend cut. While the situation has improved slightly, we would remain on the sideline for now.

VALUATION

Dividend Growth Rate Years 1-10: 0%

Terminal Dividend Growth Rate: 0%

	Discount Rate (Horizontal)		
Margin of Safety	10.00%	11.00%	12.00%
20% Premium	$2.40	$2.18	$2.00
10% Premium	$2.20	$2.00	$1.83
Intrinsic Value	$2.00	$1.82	$1.67
10% Discount	$1.80	$1.64	$1.50
20% Discount	$1.60	$1.45	$1.33

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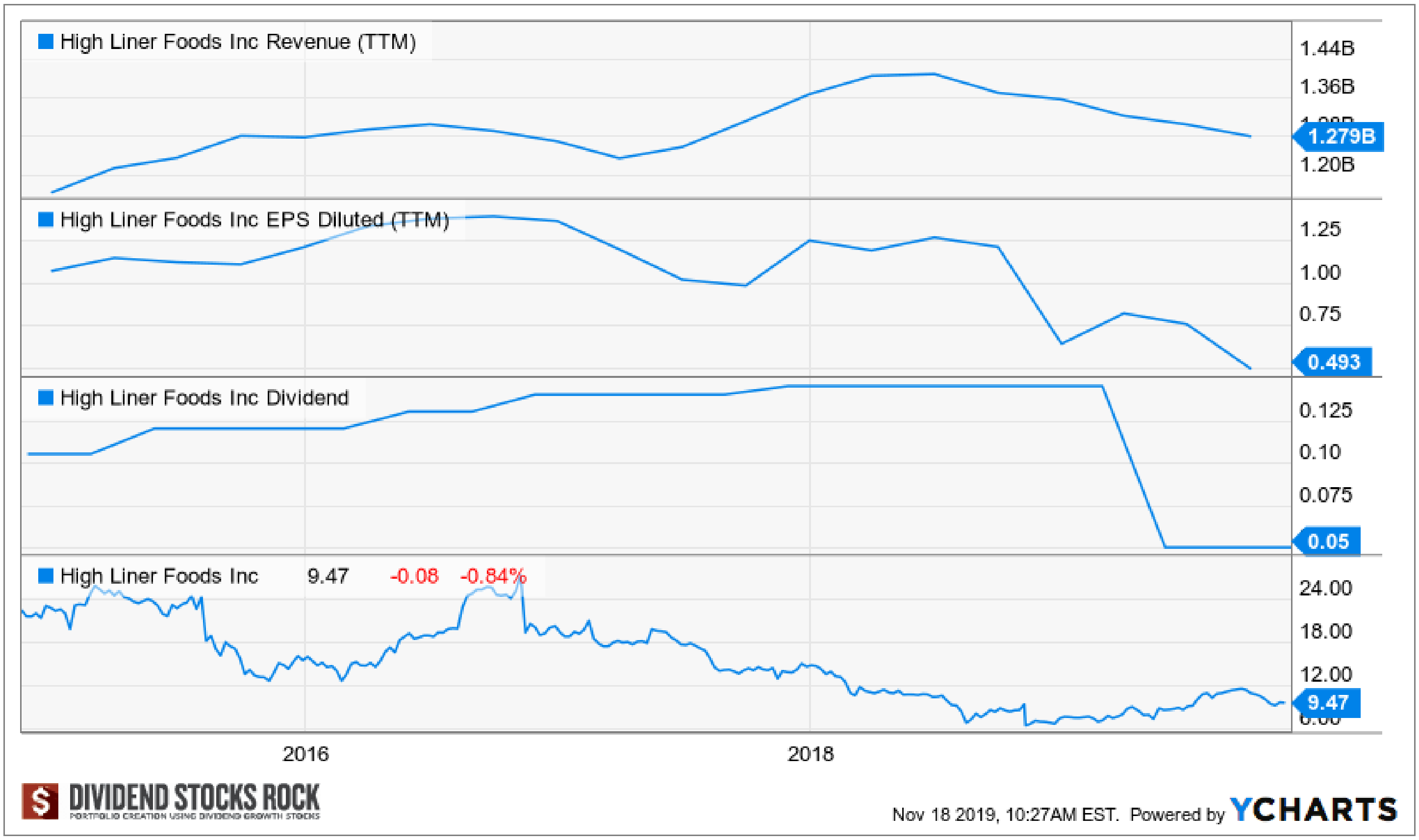

Potential Risks

HLF's main problem is related to an increased in seafood prices. Therefore, consumers are reluctant to put healthier food on their plates. HLF will have to face the challenging battle of converting North Americans' eating habits regardless of the cost. Also, the USD drastically increased its cost of operations once converted into CAD. The company made some acquisitions in the past years and their integration wasn't a success. Management has a lot of work to do as we see shrinking demand for its high margin value-added products liked breaded & battered fish.

Dividend Growth Perspective

The company cut its dividend in early 2019 even if the payout ratios were under control. This was a necessary decision from management as the company goes through several changes. While both earnings and cash flow have improved since then, don't expect a dividend raise anytime soon. The company isn't done managing facing challenges.