Should Investors Stick With This Canadian Label Maker?

Description

CCL Industries (TSX: CCL.B) isn't just a run of the mill label maker. The company is comprised of 10,000 employees in 96 facilities in 27 countries. While labels make up the bulk of the company's revenues, it also produces aluminum containers and plastic tubes for food & beverage and personal health companies. CCL has a wide array of customers across its three divisions including popular brands such as Coca-Cola, Panasonic, Tide, L'Oreal, Dove, and Nestle.

I wrote about this stock last month and declared it a "behind-the-scenes hidden gem" as it was trading at $100.29 on April. The stock is now trading at $107.50, the jump in price is being fueled by an outstanding Q1 that was released last week.

The numbers get unpacked

Q1 2014 has turned into a record breaking quarter for CCL, with sales jumping 67% to $609 million compared to $363 million in Q1 2013. Earning were equally impressive this quarter as EBITDA rose 36.8% to $117 million, from $81 million. Net earnings soared 54.3% to $52.6 million ($1.51 per diluted share) compared to $34.1 million ($0.99 per diluted share) last year. That is pretty impressive for some sticky paper and the plastic containers most of us pay little attention to. This marks the 14th consecutive quarter of year-over-year improvement in adjusted earnings per share at CCL Industries.

Growth for CCL has come partly through acquisitions that have exceeded expectations. Most important of these is the newly acquired office and consumer solutions division of **Avery Dennison** (NYSE: AVY), which posted an operating income of $13 million in what is usually a slow quarter. This and other recent acquisitions contributed to a 36% increase in total sales. The food and beverage division also saw double-digit growth due to increased demand in Africa, China, and Mexico.

A weaker Canadian loonie has also been attributed to this quarter's stellar performance, as the currency exchange against the Brazilian real contributed $0.10 per share of positive impact. Even with these solid numbers, CCL is still committed to cutting costs, including $10 million in annualized cost savings in its U.S. and Mexican operations by 2015. CCL is also looking to cut another $5 million per year through synergies with the newly acquired U.S. label and packaging manufacturer Sancoa.

Analysts boost targets

Follow the Q1 report analysts have been busy reassessing the company, BMO Capital Markets has adjusted its price target from $105 to $125. Scotiabank raised its price target from $110.00 to $119.00, and both groups rank CCL as “outperform”. The stock has seen exceptional growth over the past year, climbing from $65.68 to $107.50, and carries a healthy $0.25 quarterly dividend.

CCL Industries is an example of a company that lacks brand power but I guarantee, that you have one of its products in your home.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CCL.B (CCL Industries)

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