

## Can TransForce Deliver Growth to Your Portfolio?

### Description

When people think about investing in Canada's transportation and logistics sector, they immediately think of the railway companies and completely ignore road-based operators like **TransForce** (TSX: TFI), home of the country's largest trucking fleet. As of last year, 54% of all trans-border goods were moved by trucks, with rail moving 16% and the remaining amount moving through pipelines. In all, it took 5.6 million truck crossings to move all road-based deliveries from Canada to the U.S.

That is a sizable market share for truckers, and TransForce is ramping up its acquisitions mandate, picking up Vitran and Clarke Transport in the past year. Even in a lower-margin sector like logistics, TransForce is on track to generate about \$250 million in free cash flow. What isn't being used for acquisitions is going towards its 2% yielding dividend, which pays out \$0.58 per year.

Heavy trucking may be the main driver of business, but the company has been able to diversify itself in recent years, adding courier services, less-than-truckload delivery options, and waste management to its portfolio. Now analysts are growing optimistic that the company will begin to target higher-quality companies for acquisition.

### Second-quarter results

Following the Vitran and Clarke Transport acquisitions, revenue has risen at the company, totaling \$889 million in Q2 2014, up from \$792 million in Q2 2013. Growth in net earnings was quite substantial in the quarter, totaling \$62.8 million, or \$0.61 per share, up from \$26.6 million, or \$0.28 per share, in the prior year's quarter.

The largest quarterly gains were seen in the company's less-than-truckload sector, which saw its revenue go from \$168 million to \$248 million. These gains also produced \$97.4 million in free cash flow for TransForce, and when it announced its Q2 results, it also announced what it would be doing with some of those funds.

### The newest acquisition

TransForce announced that it would be purchasing and delisting trucking company **Contrans Group** (TSX: CSS) for \$495 million, or \$14.60 per share. Contrans provides bulk, tank, flatbed, and other transportation services at home in Canada and in select parts of the United States. In its most recent quarter, Contrans earned revenue of \$148 million, with a gross margin of 21% and net income of \$6 million. TransForce is expecting to garner about \$15 million in cost savings in part to delisting the company, all without any layoffs expected.

Analysts are expecting this new deal when completed at the end of August to add between \$0.15 and \$0.20 to the company's earnings per share. In the past year, TransForce has seen its stock climb by almost 32%, closing Friday at a new 52-week high of \$27.99.

### CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:TFII (TFI International)

### Category

1. Investing

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