Why Parkland Fuel Corp Is the Best Energy Stock You’ve Never Heard Of

Description

When we look at investable energy stocks, we tend to lean toward producers like **Imperial Oil** or **Husky Energy**. Some take the distribution route with companies like **Enbridge** or **TransCanada**. But there are other investment strategies available to investors who are willing to look outside of the box.

When we think about an energy play, we automatically jump to either crude oil or natural gas, or uranium if you’re adventurous. Yet there remains another option for energy-hungry investors looking for a great yielding dividend with a company poised for continuous long-term growth.

The company I’m talking about is **Parkland Fuel Corp** (TSX: PKI), the continent’s “fastest growing distributor and marketer of fuels and lubricants”. Parkland is a different type of energy company as it is quite varied and deals primarily with end users and wholesalers.

What began many years ago as a rural heating fuel delivery provider has grown into a coast-to-coast entity with operations in Canada and the northern U.S. through its subsidiaries Bluewave Energy, Columbia Fuels, Neufield Petroleum & Propane, Island Petroleum, Fast Gas Plus, Race Track Gas, SPF Energy, and 10 Chevron branded gas stations in B.C.

Latest quarterly report

Parkland has been steadily growing its infrastructure and its revenues. In its previous quarter, it brought in $1.8 billion in revenue up from $1.3 billion during the same period last year. This is thanks to the 1.92 billion liters of fuel, oil, propane, heating fuel, and other products sold by Parkland and its subsidiaries, up from 1.58 billion liters in the same quarter last year.

Here is where things get interesting, currently Parkland is on a quest to double its EBITDA by 2016 and a large part of that goal is cutting costs and acquisitions. The cost of these acquisitions has brought in some great additions to the company such as SPF Energy, which gave it an American foothold and a rail terminal, but the cost is deflating the books for the short term.

So we see in the past quarter that net earnings dropped to $6.9 million ($0.09 per share) from $20.3 million ($0.28 per share) and EBIDTA dropping to $35.7 million from $58.1 billion. These are the kinds of results that can hinder the stock in the short term, but the long-term potential of the stock looks quite bright, and the goal to double EBITDA by 2016 is on track as Parkland is expecting to reach $200 million in EBITDA by its fiscal year end.

Newest acquisition

The string of acquisitions is far from over as the newest deal to emerge is a $378 million ($259 million cash and $119 million in Parkland shares) deal to acquire Pioneer Energy. This acquisition will help bolster Parkland's retail fuel network in Eastern Canada and help it negotiate better pricing from suppliers.

What is interesting here is that one of the joint owners of Pioneer Energy that is being bought out is **Suncor Energy**. This is significant because for some time now Parkland has been lobbying various energy producers and refineries to either buy up their downstream marketing and/or retail divisions, or at least form a type of partnership.

It isn't just major producers that Parkland is targeting; it is also advertising itself as a potential exit strategy for independent fuel marketers looking to divest or retire from the industry.

The dividend pumping stock

Currently Parkland pays out an annual dividend of $1.06 with a yield of 4.99% — not the highest cash payout among the energy sectors, but its yield is near the top. This is a dividend that Parkland is committed to as its dividend payout ratio in its last quarter has ballooned to 87% compared to 43% at the same time last year. The stock closed Thursday at $21.04 and has an average price target of $23.40.

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1. TSX:PKI (Parkland Fuel Corporation)

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