Will Transcontinental Inc. Be the Top Performing Media Stock in 2015?

Description

Transcontinental Inc. (TSX: TCL.A) is Canada's largest printer, with operations in print and digital media, publishing, and flexible packaging, and its stock has widely outperformed the overall market in 2014, rising more than 13.5% compared to the TSX Composite Index's return of just over 7.5%. The company is well positioned to outperform the market once again in 2015, so let's take a look at three of the main reasons you should consider buying shares today.

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1. Strong earnings growth driven by acquisitions

The year-to-date rally in Transcontinental's shares is largely due to its strong earnings growth, including record fourth-quarter earnings released on December 9. Here's a quick breakdown of what the company accomplished compared to the year-ago period:

1. Adjusted net income increased 20.6% to $67.4 million.
2. Adjusted earnings per share increased 22.5% to $0.87.
3. Revenue increased 1.7% to $571.9 million.
4. Adjusted EBITDA increased 13% to $124.3 million.
5. Adjusted EBITDA margin expanded 210 basis points to 21.7%.
6. Operating profit increased 16.4% to $97.1 million.
7. Operating margin expanded 220 basis points to 17.0%.

Transcontinental's growth has been achieved organically, through new printing and distribution agreements, and through acquisitions, with the most notable being its purchase of Capri Packaging and Quebec weekly newspapers from Sun Media Corporation earlier this year. The company will likely benefit from several millions of dollars worth of cost synergies related to these acquisitions in fiscal 2015, which would enable it to post record-setting financial results.

2. Very inexpensive current and forward valuations

At current levels, Transcontinental's stock trades at 7.5 times fiscal 2015's estimated earnings per share of $2.19 and 7.2 times fiscal 2016's estimated earnings per share of $2.28, both of which are very inexpensive compared to the company's trailing-12-month price-to-earnings multiple of 12.4 and its long-term growth potential.

I think Transcontinental could consistently command a fair multiple of around 12, which would place shares upwards of $26 by the conclusion of fiscal 2015 and $27 by the conclusion of fiscal 2016, representing growth of 58.5% and 64.6%, respectively, from today's levels, and these projections do not include additional returns from reinvested dividends.

3. A bountiful dividend with room to grow

Transcontinental currently pays a quarterly dividend of $0.16 per share, or $0.64 annually, giving it a very high yield of 3.9% at today's levels. The company has also shown a strong dedication to maximizing its returns to shareholders, as it has increased its annual dividend payment for 13 consecutive years, and I think it is safe to assume that this streak will continue in 2015.

Transcontinental's inexpensive valuations, high dividend, and consistent dividend growth makes it both a value and dividend play today.

Should you buy shares of Transcontinental today?

Transcontinental Inc.'s stock has risen more than 13.5% in 2014 and it could post an even more impressive performance in 2015, because it has the support of strong earnings growth, it trades at very inexpensive current and forward valuations, and it has a very high dividend that has been increased each of the last 13 years. With all of this information in mind, I think long-term investors should strongly consider initiating positions in Transcontinental today and adding to them on any weakness provided by the market.

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1. TSX:TCL.A (Transcontinental Inc.)

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Date
2025/08/24
Date Created
2014/12/31
Author
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