Does the Post-Earnings Weakness in TransForce Inc. Represent a Buying Opportunity?

Description

TransForce Inc. (TSX:TFI), a leading provider of transportation and logistics services in North America, announced first-quarter earnings after the market closed on April 22, and its stock has responded by falling over 2%. Let's take a closer look at the quarterly results to determine if this weakness represents a long-term buying opportunity, or a warning sign.

Breaking down the first-quarter results

Here's a summary of TransForce's first-quarter earnings results compared to its results in the same period a year ago.

Metric	Q1 2015	Q1 2014
Adjusted Earnings Per Share	$0.28	$0.24
Revenue	$1.03 billion	$770.48 million

Source: TransForce Inc.

TransForce's adjusted earnings per share increased 16.7% and its revenue increased 33.9% compared with the first quarter of fiscal 2014. The company's solid earnings-per-share growth can be attributed to its adjusted net income increasing 22.3% to $29.35 million, which was helped by its operating ratio improving 20 basis points to 95.1%.

Its very strong revenue growth can be attributed to its acquisition of Transport America Inc. in the third quarter of fiscal 2014 and its acquisition of Contrans Group Inc. in the fourth quarter of fiscal 2014, which led to revenues more than doubling in its Truckload segment.

Here's a quick breakdown of 10 other notable statistics from the report compared to the year-ago period:

1. Revenues increased 114.9% to $412.16 million in its Truckload segment

2. Revenues increased 1.7% to $311.77 million in its Package & Courier segment
3. Revenues increased 17.7% to $213.84 million in its Less-Than-Truckload segment
4. Revenues increased 22.7% to $42.68 million in its Waste Management segment
5. Revenues decreased 5.6% to $68.06 million in its Logistics & Other Services segment
6. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 67.7% to $95.2 million
7. Earnings before interest and taxes (EBIT) increased 35.4% to $45 million
8. Net cash from operating activities increased 193.8% to $70.33 million
9. Free cash flow increased 51.5% to $40.48 million
10. Paid out a quarterly dividend of $0.17 per share, an increase of 17.2% from the year-ago period

TransForce also reiterated its full-year outlook on fiscal 2015, calling for total revenue of approximately $4.5 billion and earnings per share in the range of $1.85-2.

Is TransForce the top transport stock to buy today?

I think the post-earnings weakness in TransForce's stock represents nothing more than a long-term buying opportunity because it trades at inexpensive valuations and because the company has shown a dedication to maximizing shareholder returns through the payment of dividends.

First, TransForce's stock trades at just 14.1 times fiscal 2015's estimated earnings per share of $1.94 and only 12 times fiscal 2016's estimated earnings per share of $2.27, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 25 and the industry average price-to-earnings multiple of 25.1.

Second, TransForce pays a quarterly dividend of $0.17 per share, or $0.68 per share annually, giving its stock a 2.5% yield at today's levels. The company has also increased its dividend for four consecutive years, and I think this makes it one of the top dividend-growth plays in the trucking industry today.

With all of the information provided above in mind, I think TransForce represents one of the best long-term investment opportunities in the transportation sector today. Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to long-term positions.

CATEGORY

1. Investing
2. Stocks for Beginners

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