Transcontinental Inc. Continues to Make Money the Old-Fashioned Way

Description

Transcontinental Inc. (TSX:TCL.A) may be small from a global perspective, but it controls the printing market in Canada and continues to defy the doomsayers predicting the demise of printing, making a tidy profit in the process. Transcontinental is the fourth largest printer in North America and has nearly 15% of market share in Canada, making it the dominant player in the industry.

The media company's fiscal 2015 second quarter revenue rose nearly 3% from the prior year to $490 million, due to the acquisition of Capri Packaging, the consolidation of the company's weekly newspapers in Quebec and efforts to optimize its cost structure, said Transcontinental CEO Francois Olivier. Earnings applicable to particular shares more than doubled to $81.2 million, while adjusted profits increased 14% to $39 million, or $0.50 per share, slightly lower than analyst predictions of $0.55 per share.

In a conference call, Olivier added that sales had been negatively affected by retailer **Target** Canada's closure and the consolidation of the Future Shop brand into **Best Buy** (Transcontinental prints flyers for those companies) as well as the company's decision to offload a number of high-profile publications to Quebecor's TVA Group, including *Canadian Living* and *The Hockey News*.

As part of a deal with Sun Media to acquire 74 local Quebec weeklies, the Competition Bureau, in granting conditional approval, required Transcontinental to sell about three dozen of its 154 weekly publications. "There were 35 more newspapers distributed and that no longer exists today," Olivier noted. "From one year to the next, this is a considerable setback."

Despite those setbacks, CIBC World Markets analyst Robert Bek upgraded Transcontinental's stock to sector outperform from sector perform, conceding that although its overall results were short of forecasts, the miss in terms of profitability was "entirely the result of a weaker set of numbers out of the media assets, and higher head office expenses."

“To be sure, the core print segment reported in line numbers, with organic EBITDA actually up atouch,” Bek said in a note to clients. “This mitigates the quarter in our eyes, as it once again highlightsthe control that management has over the maturing model.”

The stock currently trades at approximately 1.6 times EBITDA discount to its peers, Bek added, while offering a free cash flow yield of 16.7%. Transcontinental pays a quarterly dividend of $0.17 per share, giving its stock a 4.2% yield. The company has increased its annual dividend for 13 consecutive years. For long-term investors who realize that the print product won’t be disappearing anytime soon, Transcontinental is a worthwhile addition to your diversified portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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