

Is TransForce Inc. a Bargain at Under \$25?

Description

TransForce Inc. (TSX:TFI), one of the leading providers of transportation and logistics services in North America, announced second-quarter earnings results after the market closed on July 23, and its stock has responded by remaining relatively flat. Let's take a closer look at the quarterly results to determine if we should consider using this lack of movement as a long-term buying opportunity, or if we should avoid the stock for the time being.

Breaking down the second-quarter results

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

Metric	Q2 2015	Q2 2014
Adjusted Earnings Per Share	\$0.69	\$0.55
Total Revenue	\$1.10 billion	\$889.1 million

Source: TransForce Inc.

TransForce's adjusted earnings per share increased 25.5% and its revenue increased 23.4% compared to the second quarter of fiscal 2014. These very strong results can be largely attributed to the company's recent acquisitions, including 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 its revenue increasing 101.4% to \$366.1 million in its Truckload segment.

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

1. Adjusted net income increased 26.6% to \$71.3 million
2. Revenue before fuel surcharges increased 26.8% to \$988.1 million
3. Revenue increased 5.6% to \$304.8 million in its Package & Courier segment
4. Revenue decreased 2.6% to \$198.2 million in its Less-Than-Truckload segment
5. Revenue increased 15.1% to \$55.7 million in its Waste Management segment
6. Revenue increased 10.6% to \$80.3 million in its other segments
7. Adjusted earnings before interest and taxes increased 23% to \$97.8 million
8. Free cash flow increased 0.8% to \$98.2 million

Even though the second quarter was highly successful for TransForce, it went on to reduce its full-year outlook on fiscal 2015 due to the recent “economic contraction” in Canada caused by lower oil prices. The company now anticipates adjusted earnings per share in the range of \$1.97-\$2.12 and revenue of approximately \$4.3 billion, which is down from its previous outlook of earnings per share in the range of \$2.15-\$2.30 and revenue in the range of \$4.4 billion-\$4.5 billion.

What should you do with TransForce’s stock today?

It was a great quarter for TransForce, but its reduced outlook negated the strong results, so I think its stock has responded correctly by remaining relatively unchanged. I think the stock represents an attractive investment opportunity for the long term, because it trades at favorable forward valuations and because it has a great dividend yield.

First, TransForce’s stock trades at just 11.9 times its median earnings per share outlook of \$2.05 for fiscal 2015 and only 11 times analysts’ estimated earnings per share of \$2.21 for fiscal 2016, both of which are inexpensive compared to its five-year average price-to-earnings multiple of 24.6 and the industry average multiple of 25.3.

Second, TransForce pays a quarterly dividend of \$0.17 per share, or \$0.68 per share annually, which gives its stock a 2.8% yield at today’s levels. The company has also increased its dividend for four consecutive years, and this streak will reach five if it maintains its current quarterly rate for the rest of 2015, and its increased amount of free cash flow could allow this streak to continue for the next several years.

With all of the information provided above in mind, I think TransForce represents the best long-term investment opportunity in the trucking industry today. Foolish investors should strongly consider beginning to scale in to positions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TFII (TFI International)

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