5 Reasons Why Mullen Group Ltd. Is 1 of the Best Buys in the Energy Sector

Description

Mullen Group Ltd.'s (TSX:MTL) one-year return is -37%, and all stocks in the volatile oil services segment have been hit hard. In my view, this is the time to look long and hard to find those opportunities that will leave investors smiling years down the road. Timing is tricky and impossible to get exactly right, but the general idea here is that in this situation, investors have the opportunity to get some really high-quality companies at bargain prices. In my view, Mullen Group is one such company.

Increasingly diversified revenue base

In 2014 the oil services segment accounted for 60% of the company's revenue. In the latest quarter, it accounted for 39%. While this is due in part to declining revenue from the oil services segment, it is also due to increasing revenue on the trucking and logistics side, which increased 26.3% in the quarter. The revenue increase in trucking and logistics was due to the acquisitions of Gardewine Group and Bernard Transport Ltd.

Further diversification comes in the form of geographic diversification, as the latest two acquisitions in the trucking and logistics segment have revenue exposure in Saskatchewan, Manitoba, and Ontario, thus reducing the company's exposure to Alberta.

Since Mullen Group's revenue base has historically been weighted towards its oil services division, the stock trades very much in line with the oil services group. But given that the company has made efforts to diversify away from oil services and become more heavily weighted towards its trucking/logistics segment, the stock should be viewed differently.

Strong balance sheet

Cash on hand at the end of the second quarter ended June 30, 2015 was approximately $138.3 million. This, combined with an additional $75 million from its bank credit facility, gives Mullen the flexibility to withstand these challenging times and possibly come out even stronger on the other side. That is the company's goal and acquisitions are being made today so this comes to fruition.

7% dividend yield

The 7% dividend cuts it close with a high payout ratio, but it appears to be sustainable.

Strong cash flow

In the latest quarter, cash flow from operations was $105 million and free cash flow was $56 million. Dividends paid in the quarter were $55 million, so the company is cutting it close, but is still in the black. Also, the acquisitions that the company made in order to position itself strategically away from the oil services segment totaled $166 million. While it is clear that the company is experiencing challenging times, it is doing all the right things.

Strong and consistent margins

On the trucking and logistics side, operating income in the latest quarter was $29.2 million, and operating margins increased by 1.6% due to lower fuel costs, operational efficiencies, and cost control initiatives. Margins as a whole were 16.3% down from 16.6%, impressive given the circumstances.

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1. TSX:MTL (Mullen Group Ltd.)

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