CCL Industries Inc. and North West Company Inc. Are at 52-Week Highs: Should Investors Buy or Sell?

Description

These two stocks have hit 52-week highs, and it looks like there is still room for them to go higher.

CCL Industries Inc. (TSX:CCL.B)

CCL's stock is up 55% year-to-date, yet still trades at a P/E multiple of 24 times 2015 expected EPS and 22 times 2016 expected EPS (based on consensus numbers). The last two quarters saw CCL beating earnings expectations, as sales increased 10.9%, with 2.2% organic growth, and strength seen in all categories.

The key reasons that this stock remains a good long-term buy are as follows:

The label market is a highly fragmented market, with plenty of opportunities for consolidation, and CCL is in a good position to continue to be a consolidator. With one recent major acquisition under its belt (the $500 million acquisition of Avery in 2013) and six smaller "tuck in" acquisitions, the company is well along the way in its quest to expand geographically as well as into different product markets.

The dividend has been raised regularly throughout the company's history, from an annual dividend of $0.40 per share in 2005 to an annual dividend of $1.10 in 2014.

The strong free cash flow business is another reason to buy, with second-quarter 2015 free cash flow generation of $67 million, up from free cash flow of $28 million in the same quarter last year. The five-year cumulative average growth rate is over 35%.

The trailing 12-month ROE was 19.9% and has increased steadily throughout the years. Margins have also been on the rise, with gross margin in the second quarter hitting 27.75% versus 26.8% in 2014, 25.2% in 2013, and 21.3% in 2009.

Going forward, acquisitions remain key, as CCL continues to be the consolidator in its industry, and the healthcare and specialty label businesses are high growth areas.

North West Company Inc. (TSX:NWC)

North West Company Inc. is a retailer to underserved rural communities and urban neighbourhood markets in northern Canada, western Canada, rural Alaska, the South Pacific, and the Caribbean. The sales mix is 77% food, and 19% general merchandise. With a market cap of $1.4 billion and a dividend yield of 4.3%, the company is a good candidate for investors to get exposure to this space.

In its latest quarter, the company increased its dividend by $0.02 per share, or 6.9%, as same-store sales increased a healthy 5.6%, with food sales increasing 6.3% and general merchandise increasing 2.5% on a same-store basis. The company has generated strong free cash flows in the last several years. It has a high gross margin of almost 30% and a strong ROE of over 20%.

Going forward, we should expect more partnerships with health and banking services within North West Company, as well as partnerships with other retailers and brands that would like to use North West to enter markets where it already has a footprint, thus fueling further growth.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CCL.B (CCL Industries)
2. TSX:NWC (The North West Company Inc.)

Category

1. Investing

Date
2025/09/29
Date Created
2015/09/24
Author
karenjennifer