Don’t Trust the Market. You Can Count On Superior Plus Corp.’s 6.4% Yield

Description

After surviving the start of the oil rout, **Superior Plus Corp.** (TSX:SPB) shares corrected this April from $15 to close to $11. This month, however, management reiterated the company’s $0.06 monthly dividend, resulting in an attractive 6.4% yield. Despite being heavily exposed to the energy sector, there are reasons to believe that Superior’s business isn’t all that volatile, meaning that the market may be undervaluing its shares.

Its energy business is diversified

Around half of Superior’s earnings come from the energy business. It primarily distributes propane across Canada, but is also involved in the distribution of many other refined fuels across the entirety of North America.

While many view energy companies as having volatile earning streams, Superior’s business has actually boosted segment earnings each year since 2010. From that time, segment profits are up roughly 40%. The latest rout in energy prices could actually continue this earnings growth.

According to the company, “the reduced wholesale cost of commodities is conducive to higher margins.” Lower wholesale propane and heating-oil costs also positively impact the majority of the customer base given lower total bills.

In all, Superior could actually benefit its customer’s bottom lines, while also boosting its own. For example, retailing margins are expected to increase for the fifth year in a row this year.

Specialty-chemicals business is underappreciated

As its name suggests, Superior’s specialty-chemicals business manufacturers and supplies specialty chemicals to businesses across North America. In fact, it’s the largest supplier of sodium chlorate in North America with a 34% market share. Globally, it controls 16% of the market.

Segment earnings have grown steadily from $100 million in 2010 to $105 million today, with results this year expected to be roughly the same. While other energy-related companies are getting crushed, Superior can rely on an unrelated earnings stream that is immune to swings in commodities.

Plus, the company is doing plenty to diversify itself even further. This year, Superior made an offer to acquire **Canexus Corp.** for $324 million to expand its specialty-chemicals portfolio. The combined company would experience over $30 million in annual synergies, a meaningful bump for earnings.

Is the dividend safe?

Despite being down 23% year-to-date, Superior is a better company than most realize. Its energy segment doesn't show the volatility of most companies in its sector, while specialty chemicals continues to pump out reliable cash flow. This year, total cash flow per share is expected to be $1.80-2.10. Dividend payments, meanwhile, only total $0.72 a share.

Despite market skepticism, income investors should not run from Superior shares.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:SPB (Superior Plus Corp.)

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