Contrarion Investors: Consider Mullen Group Ltd. for Exposure to the Energy Sector

Description

While **Mullen Group Ltd.'s** (TSX:MTL) fourth-quarter and year-end results are indicative of the hard times that it and the energy sector in general are going through, there were some glimmers of hope and strength that were also revealed. Let's take a look at these in an attempt to show that this stock is one to own for investors who want exposure to good, quality companies that will come out ahead when the energy sector rebounds.

Diversified revenue base

In the oilfield services segment, where revenue declined 45% to $109.7 million in the quarter and 42% for the year to $501.1 million, things are clearly a mess.

But thankfully, the company has its trucking and logistics segment, which now accounts for almost 60% of revenue, and this segment is humming along nicely thus far. Revenue increased 21.5% in the quarter and 25.2% for the year mostly due to the Gardewine acquisition, and Operating Income increased 23% for the quarter and almost 28% for the year. Needless to say, this diversification has been really beneficial to Mullen.

Impressive margin performance is indicative of top-quality management

Importantly, operating margins were quite resilient for both the quarter and the year considering the significant decline in revenue. This is largely due to the many quality and process improvements that the company has initiated in order to preserve margins in the face of the downturn.

The overall operating margin for the quarter was 18.3% compared to 18.8% last year. The trucking segment margin increased to 16.8% from 16.6%.

Strong cash flow is being preserved

Importantly, cash flow from operations for 2015 was $212 million with free cash flow coming in at $138 million. For 2016, the dividend has been reduced to $0.96 per share, and capex has been reduced to

$25 million, so at this point in time the dividend appears sustainable.

The current dividend yield is 6.73%. However, at the end of the first quarter the company will reassess the environment and the business and will cut the dividend again if it cannot be supported by cash flow as management refuses to finance a dividend with debt–a good long-term choice.

Strong balance sheet

The company's balance sheet continues to be in good shape, and this gives Mullen flexibility and options, both of which are key. The cash balance as at the end of December was $147.2 million with working capital of $187.1 million and $70 million of undrawn funds on the company's credit facility.

In closing, the future right now lacks visibility, but one piece of optimistic news is that margin improvements are expected to continue at Gardewine. Longer term, Mullen is in the much-coveted position of being well positioned to take advantage of weaker competitors by acquiring assets/companies on the cheap.

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1. TSX:MTL (Mullen Group Ltd.)

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