The Stock to Own Should Canada Post Walk

Description

Canada Post and the Canadian Union of Postal Workers are at loggerheads over a new contract, and that's got the country's businesses on edge about a possible lockout or strike come July 2. Organizations across Canada are scurrying to make alternate plans, and courier businesses such as **TransForce Inc.** (TSX:TFI) are likely to be busier than usual should a work stoppage materialize.

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It's good news for TransForce investors but not so good for the rest of us. There's not much we can do about the labour negotiations. However, if you're a business owner and your short-term costs go up as a result of sending packages overnight instead of through Canada Post, put some of your savings into TransForce as a way to recoup some of those losses.

Why TransForce and not **United Parcel Service, Inc.** (NYSE:UPS) or **FedEx Corporation** (NYSE:FDX)? Well, for starters, TransForce is Canadian and they're not. However, I wouldn't suggest investors make patriotism a key criterion for buying a stock. It's nice to know but in the end, any investment decision should be made solely on the fundamentals present in a particular business—TransForce being no different.

So, here's why I like TransForce's business and, by extension, its stock.

First, and probably the most important reason as it relates to the potential Canada Post service interruption, is its diversification of revenue. Its four segments generated $866.7 million in revenue in the first quarter of fiscal 2016, led by a strong showing in its package and courier business, which generated 35% of TransForce's total revenue in Q1 2016. While second-quarter numbers won't be affected by a potential work stoppage, Q3 2016 will be in a good way.

The other three segments, however, each had lower revenues in the first quarter. Truckload was down 2%, less-than-truckload down 6%, and logistics were off by 13%. Together, these three segments saw revenues decline $26.3 million from the first quarter in fiscal 2015. The package and courier business made up the shortfall with a $33 million increase year over year resulting in an overall 1% revenue increase for the quarter.

That's the definition of teamwork. Next quarter it could be one of the other segments picking up the rest. Diversification works.

The second reason to like TransForce is because of its commitment to strengthening its balance sheet. In the first quarter it completed the sale of its waste management business to **GFL Environmental** for $800 million. Almost the entire amount, $705 million, went to paying down long-term debt. It essentially cut its long-term debt outstanding in half from $1.6 billion, or 48% of its total assets to 29% of total assets.

Not only does this reduce its debt, but it also reduces interest expenses by approximately $30 million annually and, more importantly, focuses it entirely on its core business of transportation and logistics.

It’s addition by subtraction.

Lastly, with its valuation being more attractive than it’s been in the last two to three years and its stock down 3% year-to-date through June 27, now could be an ideal entry point. For example, its current cash return (defined as free cash flow plus interest expense divided by enterprise value) is 9.3%. This compares favourably to UPS at 5.1% and FedEx at 1.7%.

Why shop across the border when you can get a better deal right here at home? TransForce is a buy in my books.

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