3 Reasons to Own Superior Plus Corp. Now

Description

Growth investors need not apply.

Superior Plus Corp. (TSX:SPB), whose biggest claim to fame is being Canada's biggest distributor of propane, hasn't done a lot of growing in the past decade. Revenues increased by 50% over the past 10 years to $3.3 billion in 2015. That's a compound annual growth rate of 4.1%, which isn't going to get a growth investor to even crack its annual report.

However, if you're an income investor, things get a lot more interesting.

In early July, Fool contributor Joseph Solitro suggested Superior Plus was a good stock to own for dividend investors looking for a yield of 5% or more. He reckoned that its 72 cent dividend payout combined with strong adjusted operating cash flow made it a very attractive investment for income investors.

He's bang on. But there's more. I can think of three reasons to own its stock that have nothing to do with its impressive yield, which currently sits at 6.4% as of August 2.

Good capital allocation

Superior Plus has three operating segments with the propane business being the biggest both in terms of revenue and EBITDA. However, a rising star at the company has been its construction products distribution business, which doubled its EBITDA from operations in the first quarter ended March 31 to $9.3 million.

This segment has been so successful that it announced July 5 that it was selling the division for $420 million, or 8.8 times EBITDA, to a U.S. company based in Los Angeles. With the net proceeds, it intends to lower its total debt, which was $834 million at the end of Q1 or 3.4 times EBITDA.

Good capital allocation sometimes includes selling assets, not just buying them.

A terminated deal

At the end of June, Superior Plus announced it was terminating its $932 million deal to buy **Canexus Corporation** (TSX:CSU) after it failed to get approval from the Federal Trade Commission in the U.S. to approve the takeover. It's now taking legal action to recover a $25 million termination fee from Canexus for failing to get the company's consent for certain long-term compensation awards it made.

While this deal would have brought together two of the country's largest industrial chemical producers, Superior shareholders should be thankful the deal didn't go ahead as planned because the last thing you'd want is an unhappy alliance between the two companies. M&A transactions are difficult enough to succeed without factoring in a level of distrust.

Superior Plus shareholders are better off without Canexus.

A focus on two businesses

Very few companies are successful at running a number of disparate businesses as **Berkshire Hathaway** can. The fact that Superior Plus has chosen to focus on two businesses instead of three is an admission that it needs to narrow its view, not widen it.

In 2015 its EBITDA was $335.2 million with $170 million from its propane business and $117 million from specialty chemicals. Just $48 million was generated by its construction products distribution business. On a pro forma basis, it would still have generated $2.23 per share in EBITDA earnings in 2015, more than enough to cover the annual dividend.

Bottom line

Income investors who are finding it hard to uncover higher-yielding stocks should definitely give Superior Plus serious consideration. With two businesses to worry about instead of three, management's got a much better shot at getting it right.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SPB (Superior Plus Corp.)

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