



The Penny Plan Is Paying Off for Parkland Fuel Corp. Investors

Description

As increasing numbers of integrated oil companies and big-box retailers look to divest themselves from the retail fuel market, **Parkland Fuel Corp.** ([TSX:PKI](#)) is poised to benefit from this trend and grow its network of assets through acquisitions.

The company recently announced that it has entered an agreement with **Alimentation Couche-Tard Inc.** (TSX:ATD.B) to acquire the majority of the Canadian business and assets of CST Brands Inc. for approximately \$965 million. The market valued the transaction at about \$4 per share or a 16% premium, which propelled the stock to a 52-week high of \$29.55 per share.

In May 2012 the company unveiled a growth strategy called the Penny Plan. If successful it will grow its business from 4.2 billion litres in annual fuel sales to seven billion litres, or 10% of the Canadian retail fuel market, by 2016.

At the time of its release the company's CEO was quoted saying, "We measure our success in fractions of a penny per litre. Consider that at 7sevenbillion litres of fuel volume, if we are able to save a penny for every litre sold, the EBITDA gain is larger than from acquisitions alone."

This latest purchase of Alimentation Couche-Tard's fuel marketing business should add three billion litres of annual fuel volume sales to its 9.6 billion in total sales volume in 2015. This acquisition also makes the company Canada's leading fuel retailer with over 1,555 locations across the country and an approximate 15% share of the Canadian retail fuel market.

The company has been expanding its network of service stations and products over the past two years to the point that the Canadian Competition Bureau has taken notice.

A few of its recent acquisitions include the purchase of **Pioneer Energy's** assets for \$378 million. This added 319 service stations in Ontario and 74 service stations in Manitoba. In addition, it acquired propane assets operated by Girard Bulk Service Ltd. for \$4 million and was also considered a potential bidder for 212 service stations owned by **Loblaw Companies Limited**.

Price at the pump

“Few industries compete as fiercely for such narrow profits,” says Parkland’s current CEO, Bob Espey. “Retail fuel is probably one of the most competitive markets, because you have full price transparency.”

Retail fuel marketing is known as a low-margin business, so with the decline in oil prices investors would expect the company’s margins to feel the pinch. Instead, the company delivered in 2015 a 17% increase in earnings and a 7% dividend-growth rate. A significant component of this growth can be attributed to its acquisition of Pioneer Energy’s assets.

A part of its Penny Plan was also to improve operational efficiencies and improve economies of scale. An increase in earnings in its commercial fuels divisions was due to initiatives and operational improvements using fleet management and other technology solutions.

Growing on the success of its Penny Plan, the company seems poised to capitalize on this recent M&A activity in the retail fuel sector and its material supply advantage over its competitors. The market should continue to reward this stock if the company’s past acquisitions and disciplined growth tactics are any indication of its future plans.

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Date

2025/08/18

Date Created

2016/08/24

Author

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