After Earnings at Morneau Shepell Inc.

Description

Last week **Morneau Shepell Inc.** (TSX:MSI) reported earnings. As could have been expected, very little happened. Although shares of the company increased over 3% on a relatively flat day for the Toronto Stock Exchange, the reality is, the company has almost perfectly met expectations and satisfied investors yet again.

After a number of years with a consistent business model and monthly dividends of $0.065 per unit, the company has announced the retirement of president and CEO Alan Torrie, who spent 12 years at the helm. Replacing him will be Stephen Liptrap, the current chief operating officer.

The long-term benefit for existing shareholders will be the assumption of the top job by an employee already inside the company.

Since fiscal 2012, dividends paid as a percentage of CFO have declined from close to the 100% mark to 58.6% in 2015 and 59.1% in 2016. Clearly, the ship has been righted and may be ready for another run.

Morneau Shepell provides third-party support services to the employees of many of Canada biggest corporations. Additionally, the company also provides retirement benefit services; given the cost-cutting and cost-containment measures of many employers, Morneau Shepell is in prime position to continue enjoying its dominant market share.

In the most recent fiscal year, the company reported earnings per share (EPS) of $0.49 per share, which is up from the previous year's EPS of $0.33. Additionally, total cash flow from operations increased from $63,898 in 2015 to $67,039 for 2016. The company's financial strength and ability to pay and potentially raise the dividend is getting better and better every year.

Over the past five years, investors have realized price appreciation of 75% in addition to the dividend, which currently yields just over 4%. For long-term investors, the average annualized return can easily reach 20%. Going forward, there will be pressure on the company to exceed such a high benchmark.

Looking at the technical indicators, the convergence of the 10-day, 50-day, and 200-day simple moving averages (SMAs), show the upwards momentum may be running out for Morneau Shepell. This by no means is an indication of the fundamentals of the company, but it does show the bulls are getting tired of running and may need a rest.

Given the great run, the company (and share price) may experience a rough 2017 before catapulting forward in 2018 and beyond.

As a defensive play offering a sustainable dividend to long-term investors, this security may now be in a position to finally offer a pay raise to those who have been faithful followers for the long term. For patient investors, this security fits the mould of the get-rich-slowly scheme, leaving the excitement at bay.

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