



## Why ZCL Composites Inc. Surged Today

### Description

#### **Rising interest rates are good for the Industrials sector**

First, a macro call: history shows that the Industrials sector is one that will thrive under this rising-rate environment. This makes sense because when rates are rising, it is usually done against the backdrop of a strengthening economy, which is good for industrials. Now, whether this applies this time or not is the question; it's up to investors to decide.

Inflation is starting to move up and is hitting four-year highs with a year-over-year inflation hitting 2.5% in January. This is good news as it shows strengthening in the economy, but also because it means that the Fed can move to raise rates and normalize them after a long period of keeping them artificially low.

#### **ZCL Composites Inc. (TSX:ZCL)**

More specifically, ZCL Composites's stock was strong today off the company's strong fourth-quarter and full-year 2016 results. For the year, revenue increased 12% to \$164.9 million, gross profit increased 23%, and net income increased 14%.

After the dividend increase that was instituted today (a 50% increase in the quarterly dividend to \$0.12 per share), the dividend yield now stands at 3.7%. Over and above this increase, the company also announced a special dividend of \$0.65 per share. This comes after last year's 60% increase in the dividend and one-time special dividend of \$0.50 per share. So, the company is clearly doing something right.

ZCL is a manufacturer and supplier of fiberglass-reinforced plastic underground storage tanks, which have been in strong demand, as evidenced by these results and the results over the last few years.

In a nutshell, as an investor, I'm interested in this company because the business model is cash flow strong, it is not a capital-intensive business, and profitable growth is stressed. Free cash flow in 2016 was \$26.4 million, and represented a free cash flow margin (free cash flow as a percentage of revenue) of 14% — a very strong number.

**Aecon Group Inc. ([TSX:ARE](#))**

Aecon is another industrial company that has increased its dividend this year; the dividend increased by 8.7% to \$0.50 per share, reflecting the strong growth the company has been seeing. In 2016, revenue increased 10% to \$3.2 billion, and the backlog increased 28% to \$4.2 billion.

The fact that the Liberal government has made a commitment to boost spending on infrastructure is very bullish for Aecon. Trudeau's plans were to double federal infrastructure spending in the short term and to almost double infrastructure investment to nearly \$125 billion over the next decade. The plans were for new dedicated funding to provinces, territories, and municipalities for public transit infrastructure, social infrastructure, and green infrastructure.

**CATEGORY**

1. Dividend Stocks
2. Investing

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**Date**

2025/07/05

**Date Created**

2017/03/09

**Author**

karenjennifer

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