Evaluating Intertape Polymer Group

Description

Over the past five years, shares of **Intertape Polymer Group** (TSX:ITP) have been very good to investors. Since 2012, the total price return has been no less than 360% in addition to a dividend which was initiated in 2012. The dividend has grown to a yield of approximately 3.25%.

What makes this dividend interesting is that the quarterly payments of US$0.14 per share are in U.S. dollars, while shares are currently trading near $23.25 in Canadian dollars; investors must adjust their yield calculations to account for the receipt of U.S. dollars. Further, the quarterly and annual reports of the company are also presented in U.S. dollars. This presents an interesting challenge for investors.

While the company is based in Canada, the majority of the manufacturing facilities and clients are located in the United States, which translates to the intake of more U.S. dollars than Canadian dollars. Clearly, the company is better off reporting all figures in U.S. dollars rather than adjusting a higher percentage of revenues and expenses every year by a different foreign exchange multiple.

The downside of this decision is, by being listed on the Toronto Stock Exchange (in Canadian dollars), the company looks to be trading at a much higher valuation than it otherwise would. At the time of writing, the exchange rate is approximately CAD$1.33 for US$1.

Prior to making an investment, investors should be keenly aware of the dividend growth. In spite of revenues that have been stagnant — (all amounts are in thousands) US$808,801 (2016), US$781,907 (2015), and US$812,732 (2014) — the total dividends paid have been rising.

The total dollar amount paid in dividends over the past three years have been (in thousands) US$31,365 (2016), US$29,695 (2015), and US$24,249 (2014). To make things even better for investors, the share buyback (again, in thousands) have totaled almost US$40,000. Total shares outstanding have declined from 60.44 million in 2014 to 59.06 million at the end of 2016.

The dividend-payout ratios over the past three years have been 61% (2016), 52% (2015), and 67% (2014). While it should be noted the company has recently completed the upgrade of a number of manufacturing facilities, these payout ratios are still somewhat high.

Lastly, and very importantly, are the earnings per share (EPS), which allow investors to obtain a P/E (price to earnings) multiple. Over the past three years, EPS were US$0.87 (2016) US$0.95 (2015), and US$0.59 (2014).

Currently trading at a price near $23.25, shares would seem to be trading at a trailing P/E of 26 times, which would be an exceedingly high valuation. Instead, we must adjust the EPS (reported in U.S. dollars) to Canadian dollars in order to measure the correct P/E.

EPS of US$0.87 multiplied by 1.33 translates to EPS of $1.15 and a P/E ratio closer to 20 times.

While a P/E ratio of 20 for a company that manufactures tape may be difficult to stomach, the multiple is much more attractive than the previous 26 times earnings. Investors purchasing shares at current levels may need to be cautious about the 3.25% dividend yield, which could either get more or less attractive, even if the company does not change the dividend. The change in dividend yield would happen be a simple change in the foreign exchange rate. Buyer beware!

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