



## Parkland Fuel Corp.'s Latest Deal Makes it a Must-Buy Stock

### Description

Rapidly growing **Parkland Fuel Corp.** ([TSX:PKI](#)) has just announced another accretive acquisition that will transform the company. It is already Canada's leading independent fuel retailer and is in the midst of completing a needle-moving \$965 million deal to acquire the majority of **CST Brands Inc.**'s Canadian assets as part of **Alimentation Couche-Tard Inc.**'s takeover of that company.

The latest transaction will significantly boost Parkland's earnings once it is completed and synergies are identified.

### Now what?

This latest deal is the \$1.5 billion acquisition of **Chevron Corporation's** ([NYSE:CVX](#)) Canadian downstream gasoline retailing business. It will add Chevron's 129 retail service stations in British Columbia to Parkland's existing 44 Chevron-branded sites in the province. There are also the 37 commercial cardlock and three marine refueling sites included which will help to expand Parkland's operational footprint.

On completion, it will make Parkland the exclusive distributor of Chevron-branded fuels and boost its EBITDA by up to \$230 million before synergies are identified. Management expects annual synergies totaling up to \$50 million to be recognized, expanding the forecast hike in EBITDA to an impressive \$280 million, which is more than a 100% increase over Parkland's reported 2016 EBITDA of \$253.5 million.

A 30% increase in cash flow is also predicted. Any excess cash flow will be used by management to reduce Parkland's debt, so its net-debt-to-EBITDA ratio falls by 2019 to well below the maximum 3.5 times forecast in its 2017 guidance.

This is a transformative deal for Parkland because, in conjunction with the huge CST Brands transaction, which is expected to close this quarter, Parkland will become one of the leading players in fuel and petroleum products distribution in Canada.

On completion, both deals will give Parkland's earnings a massive lift.

For 2017, Parkland is anticipating an increase in EBITDA up to a healthy 12% year over year to \$285 million; given the number of acquisitions completed in 2016, along with the impending completion of the CST Brands transaction, this certainly appears achievable.

I expect solid earnings growth to continue because of the considerable efficiencies that remain to be unlocked from previously completed deals as well as from the purchase of Chevron's gasoline retailing business.

When coupled with the relative inelastic demand for gasoline, these factors virtually guarantee that Parkland's earnings will grow for the foreseeable future.

### **So what?**

Parkland has rapidly emerged as a major player in Canada's fuel-distribution industry. The company has a knack of identifying reasonably priced acquisitions that have allowed the company to unlock considerable synergies due to their compatibility with existing assets. These characteristics have helped to boost earnings and will continue to do so as deals that are underway are completed and bedded down.

The latest deal certainly possesses these attributes. I expect the deal to give EBITDA a significant lift, and this will eventually translate into an improved bottom line that should see Parkland's share price continue to grow. While investors wait for this to occur, they will be rewarded by the monthly dividend, which has a tasty yield of almost 4%.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:CVX (Chevron Corporation)
2. TSX:PKI (Parkland Fuel Corporation)

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