



Mullen Group Ltd. in a Low Oil Price Environment

Description

Over the past several years, shares of **Mullen Group Ltd.** ([TSX:MTL](#)) have not been good to investors. Trading at a price in excess of \$30 per share in 2014, the monthly dividend was about \$0.10 per share. In spite of this, investors have still managed to lose a good portion of their capital.

Currently trading closer to \$15, the monthly dividend has been reduced to \$0.03, offering investors a yield close to 2.4%. While cutting a dividend is rarely a good sign, investors can rest knowing the sustainability of the dividend is a little higher. For fiscal 2016, the total dollar amount paid in dividends was close to \$60 million out of cash flow from operations (CFO) of approximately \$174 million.

In the first quarter of 2017, investors received close to two times CFO in the form of dividends. The news, however, is not all bad. The CFO declined when compared to the same quarter one year ago due to the increase in working capital in the amount of \$38 million. Hopefully, with more working capital, the company will be in a better position to increase revenues and net profits in the coming year.

Let's look at the company's investments in long-term assets. Mullen Group made significant capital expenditures in fiscal 2013, 2014, and 2015. In 2016, capital expenditures were a mere \$21 million with the depreciation expense totaling over \$70 million. With property, plant, and equipment totaling close to \$1.6 billion and carrying accumulated depreciation of no more than \$600 million, the company will probably be able to produce higher cash flows without having to replace a large amount of equipment. The PP&E is approximately one-third into its useful life.

Investors need to be concerned about the company's ability to continue generating revenues and profits for shareholders. In the business of trucking logistics, the economic cycle is going to have a large effect on the operations of the business. In 2016, revenues declined by close to 15%, while net profits were almost cut in half.

Shares of Mullen Group are clearly cyclical and could go significantly higher or lower depending on where the economic cycle leads the company. As a reminder, cyclical companies have a much larger variance in revenues and profits depending on the economic cycle currently in swing.

Almost a decade after the Great Recession, things have finally begun to normalize. One of the

challenges faced by Mullen Group will be the continued cost containment needed to return profits to shareholders.

With the 50-day simple moving average (SMA) close to catching up with the 10-day SMA, shares may be at a point of reaching a bottom. Making things more attractive, the shares, which are currently trading near \$15 per share, are not far off the 52-week low of approximately \$13.50.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:MTL (Mullen Group Ltd.)

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Author

ryangoldsman

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