Winpak Ltd.: A Company With No Debt and Lots of Cash

Description

On the surface, **Winpak Ltd.** (TSX:WPK) may seem like a boring and unattractive investment. I can see why investors might think this way. First of all, the packaging business the company is not very exciting.

Winpak manufactures and sells packaging materials as well as products related to packaging machines, which it also sells. These packaging materials are sold to food companies, beverage companies, and are used in healthcare applications.

Second, not only are packaging materials not very exciting, but the growth rates of the industry are pretty yawn-worthy as well, as the market for packaging has typically grown a mere 2-4% per year.

But what if we went in for a deeper look beneath the surface? Maybe then we can get excited.

Steady, strong results

In the latest quarter, the company once again reported strong results, with revenue increasing 15% and operating cash flow increasing 8.4% to $51.4 million.

Returning cash to shareholders

While the company pays a small dividend of $0.12 per share for a 0.21% dividend yield, there have been special dividends paid out on occasion that were a nice gift for shareholders. The company made two one-time dividend payments recently; the first was a $1-per-share dividend in March 2014, and the second was a $1.50-per-share dividend in October 2015.

Keeping the regular dividend low and paying out a special dividend when times are good is a good strategy that offers the company additional flexibility to run the business as well as return capital to shareholders.

Lots of cash and no debt

Winpak has a balance sheet that puts it in a good position to capture growth in the flexible packaging business, which is growing above the general packaging business. Cash on hand as of the end of the first quarter of 2017 was US$232 million — up from US$165 million in 2015 — and an increase of 14% versus 2004, and there was zero debt.

With this wealth, the company will continue to expand organically and introduce new technologies and/or take advantage of new product opportunities. According to management, the investments planned are expected to provide a +20% internal rate of return.

There is also the possibility of an acquisition given the strong balance sheet.

In closing, I would like to point out the performance of the stock as the company has quietly and consistently grown its business. The stock has a one-year return of 20%, a three-year return of 137%, and a five-year return of 318%. This is one of those high-quality, little-known names that I would be happy to invest in.

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