



## Is Enercare Inc. a Buy at Today's Levels?

### Description

Many of the world's most iconic investors have made fortunes investing in what many market participants would agree are "boring" business. In that regard, **Enercare Inc.** (TSX:ECI) fits the mould as a boring, yet profitable business to consider.

This Canadian provider of services relating to sub-metering, water heaters, furnaces, and air conditioning systems has experienced a nice boost of late. Increased consumer spending across the company's operating segments, helped along by tailwinds stemming from the most recent Trump Rally and improved sentiment in the North American housing sector, is leading to increased spending on important, yet cyclical purchases.

The cyclical nature of Enercare's business model is certainly something to take into consideration; looking at Enercare's stock chart over the past 10 years, one will notice that during the most recent housing-driven recession, the company's shares lost approximately 80% of their value. That said, shares have since returned to pre-recession levels, making this a great company to play industry-wide cyclical trends.

Perhaps the cyclical nature of the company's business model has inspired management to look at ways of weathering such a storm in the future; one indication that this may be the case is reflected in increased capital spending in recent years which has aligned with increased net operating cash flow. As Enercare's operations have become more profitable, management has been reinvesting these earnings back into the business, substantially increasing the book value of the company's asset base, which was previously declining.

Subsequent free cash flow generation in recent years has become muted by the increased capital expenditure outlays each year; however, I view this spending largely as a defensive move in the sense that the company is reinvesting in itself, indicating that it expects to be more profitable in the future. In the case of a sustained market correction, similar to the one experienced 10 years ago, capital-expenditure spending is one thing that can easily be cut back on, increasing cash flow temporarily as the company weathers the storm.

For a long-term investor considering a buy-and-hold strategy for at least a decade, one of the most interesting aspects of Enercare shares is the corresponding dividend yield — a yield which currently sits around 4.7%, although it has declined recently due to capital appreciation in the underlying shares. Management has remained committed to raising its dividend distributions annually, increasing the dividend each year for the past eight years (following the recession), and is likely to continue to do so moving forward, barring a significant negative macroeconomic event.

Stay Foolish, my friends.

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