Is This High-Octane Company Canada’s Top Growth Stock?

Description

Fast-growing **Parkland Fuel Corp.** (TSX:PKI) has pulled back sharply in recent weeks to be down by just over 5% since I last reviewed the stock in late April 2017. This pullback provides investors with an attractive entry point into what could be considered Canada’s best mid-cap growth stock.

Now what?

Parkland Fuel has expanded rapidly in recent years to become Canada’s largest independent marketer of fuels and other petroleum products. Its already solid growth credentials were enhanced late last month by closing the $985 million acquisition of the majority of the Canadian business and assets of **CST Brands, Inc.** from **Alimentation Couche Tard Inc.**

That deal gave Parkland’s operational footprint a substantial boost. It added 495 dealers and commissioned agent retail fuel sites, 73 commercial cardlock sites, 30 commercial heating sites, and 159 company-operated retail fuel sites to its already significant North American presence. It makes Parkland Canada’s leading fuel retailer, giving it critical mass in Quebec as well as Atlantic Canada, where it has been under-represented in the past.

According to management, the deal should be immediately accretive, increasing cash flow by over 20%. It will also further boost earnings through additional synergies that will be identified over the next three years. Now that the acquisition is complete, Parkland’s EBITDA will experience a healthy bump over coming months, and this should cause its stock to appreciate significantly.

This isn’t the only reason to invest in Parkland. The company remains focused on identifying accretive deals and boosting its portfolio of assets.

During the first quarter 2017, it completed the $1.6 billion acquisition of **Chevron Corporation’s** downstream fuel assets in Canada. That purchase boosted Parkland’s annual fuel volume by 2.5 billion litres. It also added $230 million in EBITDA before accounting for synergies and other efficiencies.

According to Parkland, the synergies from the deal could amount to as much as an additional $50 million in EBITDA and a 30% accretion to cash flow.

So what?

Parkland is an extremely attractive growth stock. The latest two deals will give its earnings a solid bump as they are bedded down and as synergies and operational efficiencies are realized.

Unlike most growth stocks, Parkland is not as vulnerable to downturns in the economic cycle, because its core business is engaged in the distribution and selling of fuels and petroleum products. These remain a key means of powering modern economic and social activity, making demand for those products relatively inelastic.

For these reasons, it is easy to see Parkland delivering further solid financial results, which should cause its share price to appreciate. While patient investors wait for this to occur, they will be rewarded by its handy monthly dividend, which has a juicy 4% yield.

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