



Should Investors Consider This 1 Logistics Company Today?

Description

Companies operating in industries which are considered to be highly cyclical may be viewed in today's market to be more risky than certain defensive plays, given the fact that most analysts and market participants generally agree that we are now in the latter stages of a bull market which has lasted for the better part of a decade. Industries such as trucking and logistics are sectors which are thus very hard to gauge at the moment, providing investors with difficulty in placing a valuation on individual firms and justifying high valuations, leading to some potential opportunities in the market for undervalued firms.

Canada-based transportation and logistics company **TFI International** ([TSX:TFII](#)) is one of the largest companies in its sector, currently sporting a market capitalization of \$2.6 billion. Purveyors of a host of transportation-related services from truckload, package and courier, less-than-truckload (LTL) shipments and container transportation services, TFI generates the vast majority of its revenue in North America, nearly evenly split between Canada and the U.S.

Investors bullish on TFI's long-term prospects typically point to the company's recent acquisition of the North American assets of **XPO Logistics Inc.** ([NYSE:XPO](#)) as reason to cheer, with the acquisition largely viewed as a complementary, synergistic bolt-on rather than the more typical scenario in which assets are overpaid for to the detriment of the acquirer.

The company's growth model, which includes impressive organic growth numbers as well, underwhelmed the market overall during the company's recent earnings reports. With the accretive nature of the XPO acquisition seemingly not taking form, investors have sold off TFI shares to pre-acquisition levels, largely calling the acquisition a wash and considering the company once again as an entire entity rather than a sum-of-the-parts.

Any time a company loses nearly 20% following an acquisition announcement which was initially met with investor and analyst enthusiasm, it makes sense to take a look at this business from a fundamental standpoint to see if an investment at current levels makes sense.

To start, TFI's valuation multiples appear expensive, even after the recent 20% drop in the company's

stock price. Since 2013, the company has grown its net income from \$62 million per year to \$640 million last year, however the company's trailing 12 month earnings currently sit at \$36 million, creating the situation in which the company's valuation multiple sits at 82 after the stock price drop.

The recovery in trucking revenues (and corresponding earnings) has been elusive, a recovery which was expected to really pick up steam in 2017 but has remained flat for some time. Analysts are now pushing out the potential recovery to 2018, although investors do not seem to have as much faith as many of the analysts do, shown by the sell-off of late.

Bottom line

Shares of TFI have begun to stabilize, and the company does have a number of margin expansion opportunities, along with synergistic opportunities, stemming from its recent acquisition. I would consider this company at lower levels, should prices continue to adjust downward. For the time being, it may make sense to remain on the sidelines.

Stay Foolish, my friends.

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