At a 52-week Low, Shares of Intertape Polymer Group Are Now a Steal

Description

The past five years have been very good to shareholders of **Intertape Polymer Group** (TSX:ITP), as the company began paying a dividend, which has since grown to become a quarterly amount of $0.18 per share. The total price return for shares has been no less than 135% over the past five years in addition to a dividend which currently offers a yield of almost 3.75%. The compounded annual growth rate (CAGR) over the past five and 10 years has been 24% and 22%, respectively.

The bad news for investors, however, is the company has not been able to shoulder the very high expectations as of late. Over the past one-year period, shares have declined by almost 11%, while the total value lost since the beginning of the calendar year is no less than 22%. Clearly, it was time for investors to lock in profits.

Now trading near a 52-week low of less than $20 per share, this defensive company may now be reaching a point of saturation as the revenue growth has started to move sideways. The opportunity this presents for investors is fantastic. Given the recent pullback in the share price, new investors will have the opportunity to purchase a Canadian dollar security which reports its financial statements in U.S. dollars while experiencing increasing margins.

The gross margin divided by revenues has increased from 20.3% in fiscal 2013 to 23.7% in fiscal 2016. When looking further down the income statement, things get even better. In 2014, the company reported earnings of US$35.82 million from revenues of US$812 million (leading to a profit margin of 4.4%). The profit increased to US$51.12 million based on revenues of US$808 million in fiscal 2016. The profit margins grew alongside the increase in the gross margin, reaching 6.3%.

With a change in sentiment from the market, the opportunity for this security lies in the future. Those looking to purchase shares at current levels will receive a defensive company with consistent returns on equity of more than 20% and a dividend-payout ratio of approximately 60%.

Setting expectations

With equity on the balance sheet listed at US$236 million, the projected earnings per share in the next year is no less than $1.05. At current levels, the price-to-earnings (P/E) ratio is approximately 20 times, making this investment relatively inexpensive. As a reminder, defensive companies most often trade at higher multiples than cyclical companies, as there is a much higher probability that revenues and earnings will reoccur quarter after quarter.

In each of the past four fiscal years, Intertape Polymer Group has spent a considerable amount of money on capital expenditures than on the amount of depreciation expenses. As a reminder, investments in long-term capital expenditures are most often positively correlated to a company's capacity to increase revenues over the long term.

After a change of sentiment in the wrong direction, shares of this gem may be ready for another major run upwards.

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