

Why Transcontinental Inc. Is up Over 3%

Description

Transcontinental Inc. ([TSX:TCL.A](#)), Canada's largest printer, released its third-quarter earnings results this morning, and its stock responded by rising over 3% in early trading. Let's break down the quarterly results and the fundamentals of its stock to determine if we should be long-term buyers today or wait for a better entry point in the trading sessions ahead.

The results that ignited the rally

Here's a quick breakdown of eight of the most notable financial statistics from Transcontinental's three-month period ended on July 30, 2017, compared with its three-month period ended on July 31, 2016:

Metric	Q3 2017	Q3 2016	Change
Printing and packaging products revenue	\$370.4 million	\$342.8 million	8.1%
Publishing and content products revenue	\$70.0 million	\$85.1 million	(7.2%)
Other product and services revenue	\$37.3 million	\$39.9 million	(6.5%)
Total revenue	\$477.7 million	\$467.8 million	2.1%
Adjusted operating earnings	\$69.9 million	\$62.7 million	11.5%
Adjusted operating margin	14.6%	13.4%	120 basis points
Adjusted net earnings	\$50.1 million	\$44.1 million	13.6%
Adjusted net earnings per share (EPS)	\$0.65	\$0.57	14.0%

What should you do now?

It was a great quarter overall for Transcontinental, and the results surpassed the consensus estimates of analysts polled by **Thomson Reuters**, which called for adjusted EPS of \$0.56 on revenue of \$461.08 million. The company also performed very well in the first nine months of fiscal 2017, with its revenue up 1.1% to \$1.48 billion, its adjusted net earnings up 11.9% to \$133.9 million, and its adjusted EPS up 12.3% to \$1.73.

With all of this being said, I think the market has responded correctly by sending its stock higher, and I think it still represents a great long-term investment opportunity for two fundamental reasons.

First, it's still wildly undervalued. Even after the +3% pop, Transcontinental's stock still trades at just 10.1 times fiscal 2017's estimated EPS of \$2.52, which I think is much too low. I think it could easily

command a multiple of 12-15 times earnings, which would place its shares upwards of \$30 by the end of the year.

Second, it has a fantastic dividend. Transcontinental currently pays a quarterly dividend of \$0.20 per share, equal to \$0.80 per share annually, which gives it a generous 3.15% yield. Investors must also note that the company's recent dividend hikes, including its 8.1% hike in March, have in on track for 2017 to mark the 16th consecutive year in which it has raised its annual dividend payment, making it both a high-yield and dividend-growth play today.

With all of the information provided above in mind, I think Foolish investors should consider initiating long-term positions in Transcontinental today with the intention of adding to those positions on any significant pullback in the future.

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