Is This 4% Yield Canada's Best Up-and-Coming Dividend-Growth Stock?

Description

The rapid expansion in economic growth that massively exceeded even the most bullish expectations has brought the spotlight firmly back on growth stocks. These stocks are the most likely to benefit from a stronger economy.

You see, growth generates sustainable positive cash flow growth, allowing companies to grow at a faster rate than the average company in their industry. They are also a better investment than value stocks when interest rates are rising, because a stronger economy will propel their earnings higher.

A company that stands out as potentially one of Canada's best growth stocks for these reasons and more is **Parkland Fuel Corp.** (TSX:PKI), which can be characterized as North America's fastest-growing fuel and lubricants marketer.

Now what?

Parkland has grown rapidly through a relentless acquisition strategy. During the second quarter 2017, it completed the needle-moving $965 million acquisition of the majority of the Canadian assets of CST Brands Canada from **Alimentation Couche-Tard**. There was also the US$1.1 billion purchase of **Chevron Corporation's** Canadian downstream fuel business. This saw Parkland acquire its British Columbia refinery, 129 Chevron-branded fill-up stations in the Vancouver area, marine fueling stations, and an aviation fuel business supplying the Vancouver International Airport.

Both deals, once bedded down, will allow the implementation of considerable efficiencies, which will further contribute to Parkland's earnings growth over coming months. They have already had a positive effect on fuel volumes, which, for the second quarter 2017, grew by 2% year over year, leading to a 15% spike in revenue.

Nevertheless, EBITDA declined by 5%, and net earnings dropped to a $1.4 million loss primarily due to increased acquisition and integration costs.

This means that once the two latest deals are bedded down, Parkland should experience a solid lift in EBITDA and profitability. That is reflected in Parkland's revised guidance, where it boosted its 2017 EBITDA, which is forecast to be as high as $355 million, or 25% greater than its original projection.

This remarkable increase in earnings could certainly lead to Parkland rewarding investors with yet another dividend hike after having already boosted its dividend payment for the last five years straight. With an adjusted dividend-payout ratio of 84% at the end of the second quarter, the company's dividend, which is currently yielding a juicy 4%, appears quite sustainable. Such an attractive yield combined with a solid history of dividend hikes as well as the likelihood of further increases because of the expected growth in EBITDA make Parkland an attractive investment for income-hungry investors.

While growth stocks are typically exposed to economic downturns that can have a sharp impact on their earnings, Parkland is, to an extent, shielded from the effects of declining economic growth. Demand for fuels and other petroleum products, including lubricants, is relatively inelastic because they are a vital part of modern economic and social activity.

That means there is little impact on their demand when the economy deteriorates.

Parkland also remains focused on growing its retail fuels segment through a combination of strategies aimed to boost cross selling and strategic partnerships, and it's investing in a range of merchandise marketing programs. This will also help to boost its bottom line as well as expand its operational footprint.

Notably, despite the considerable acquisitions, Parkland's balance sheet remains in a healthy state. At the end of the second quarter, debt was well within both the required covenants, and management indicated that long-term debt totaling $1.8 billion was quite manageable.

So what?

Parkland has to be one of Canada's top growth stocks, and the expected increase in earnings from recently completed transactions will lead to a healthier bottom line and further dividend hikes. This combined with a juicy 4% yield makes it an attractive stock for investors seeking growth and income.

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