3 Reasons to Buy Enercare Inc. Today

Description

Enercare Inc. (TSX:ECI) provides sub-metering solutions and HVAC sales and services, and the company also provides residential users with furnaces, water heaters, air conditioners, and other similar products through its home services segment. Enercare is in a stable industry, and growth will follow as populations continue to expand and as individuals look for more cost savings in utility-related expenses.

Enercare offers home assessments through its management consultants, which can help advise consumers on purchases and potential savings. Enercare's operations are in Canada and the U.S., and the company serves about 1.6 million customers every year.

The company has provided investors with returns of over 13% in 2017, and it is a great investment for three important reasons.

Sales and profits have been growing strongly

The company totaled revenues of just under $1 billion in its last fiscal year, which were up 77% from the previous year and have more than tripled in just three years. Enercare has continued to build on that growth with its recent quarter showing a 40% year-over-year increase in sales, and in the trailing 12 months, the company's revenues have reached over $1.2 billion.

Perhaps more importantly, Enercare's bottom line has also seen tremendous growth with a 20% improvement in the last fiscal year and a sevenfold increase in just three years. Earnings per share of $0.29 in 2013 have grown to $0.65 in 2016.

Strong gross margins

A key ingredient to being profitable is having either strong gross margins or lots of volume. In the past five quarters, Enercare has averaged a gross margin of 51%, which leaves a lot left over to cover other operating expenses and overhead costs. Four of the company's past five quarters have been profitable, and in the most recent earnings report, the company recorded a profit margin of 6%.

Rental revenue and services make up a significant portion of the company's sales

In its most recent quarter, sub-metering made up just 9% of the company's sales, while service experts made up the majority of revenue with 58% coming from that segment, followed by home services which accounted for a third of all sales.

By digging in a bit deeper, we see that rentals represented almost three-quarters of revenue for the home services segment and, combined with protection plans, totaled 93% of the division's sales. Service experts also saw service and replacement account for 95% of its revenue, with the residential market making up most of that.

What this means for investors

A company with high margins, growing sales, and the potential for more growth presents investors with a great opportunity to benefit from capital appreciation down the road. As consumers become more concerned with energy costs and environmental impacts, there will be more demand for advisory services to help consumers make informed decisions. With most of the company's revenue coming from service-related sales, there is a great potential for growth and retention, and that has helped the company achieve its excellent growth over the years.

In the past five years, the company's share price has increased by 138%, and with a dividend of 4.7%, there is plenty of incentive for investors to hold on to the stock.

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