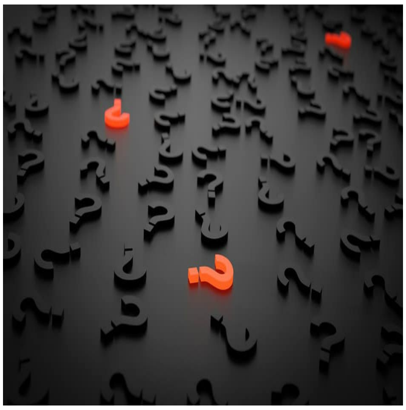

# Should You Buy Stock in the Finance Minister's Family Biz?

## Description

Finance minister Bill Morneau is currently in the process of selling the remaining shares he or his family owns in **Morneau Shepell Inc.** (TSX:MSI) as a result of conflict-of-interest allegations.



Morneau worked at his dad's company from 1987 through 2015, when he resigned as the company's executive chairman after being elected a federal Member of Parliament.

Formerly a pension benefit consultant, Morneau Shepell has grown into a much bigger company, offering large companies all kinds of human resources solutions.

**Bill Morneau is getting out. Should you be getting in?**

The company's stock's having a good year and is up almost 18% through November 1 — more than double the TSX Composite Index. Historically, it's been a winner, besting the index in seven of the last 10 years. Since its IPO in September 2005, it's achieved a cumulative total return of 215% — also more than double the index.

The question is if it will keep performing over the next decade or more.

It's gone through a lot of name changes over the years, as it's morphed from W.F. Morneau & Associates in 1966 to Morneau Sobeco in 1997 and finally to its current name in 2011 after converting from an income trust.

Whatever name it's gone by, it's always seemed to perform for investors by generating strong organic and recurring revenue growth and not by acquisitions, which seems odd given the number of name changes.

**Consistent growth**

Morneau Shepell has grown revenue every year from 2007 to 2016. More importantly, it's revenuethem by 17% annually; not to be outdone, operating income also grew by 17% per year over the sameperiod.

Knocking its consistency is hard.

For income investors, it currently provides a dividend yield of 3.7% — one of the better dividend yields on the TSX. It's averaged a dividend yield of 6.7% over the past decade, while delivering double-digit capital appreciation makes it twice as deadly; it's the kind of stock you want to buy and never sell.

In its most recent quarterly report announced in August, Morneau Shepell delivered 7.7% revenue growth to $160.8 million, along with a 7.8% increase in adjusted EBITDA to $31.8 million.

As I mentioned previously, it's done an excellent job growing revenue organically. Through the first six months of the year, only $6.2 million of its $318.7 million in revenue came from acquisitions; the rest was home-grown growth.

On November 1, it announced that it was acquiring Pro Health Group, a Quebec City-based provider of employee and family-assistance programs (EFAPs). Like many of its bolt-on acquisitions, this one is meant to add to its existing strength in Quebec.



**Any downside?**

Well, as Fool contributor Susan Portelance recently suggested, its stock doesn't come cheap, trading at 37 times current earnings and a low 8.6% return on equity.

However, based on the 2018 consensus analyst estimate of $1.02 per share, its forward P/E is more like 21 — a much more reasonable valuation.

Furthermore, Fool contributor Joseph Solitro reminded readers in October that Morneau Shepell is a good cash flow generator — $71 million in fiscal 2016 and $34 million through the first two quarters of 2017 — and therefore it will have no problem continuing to pay its attractive dividend.

**Bottom line on Morneau Shepell**

Conservatively financed with just $247 million in long-term debt or 22% of its market cap, Bill Morneau's error in judgment has brought a lot of attention to a stock that tends to fly under the radar.

Don't let this mistake by the finance minister dissuade you from buying Morneau Shepell stock. That's especially true if you're an income investor.

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