Why CCL Industries Inc. Dropped 3.53% on Wednesday

Description

CCL Industries Inc. (TSX:CCL.B), one of the world's leading providers of specialty label, security, and packaging solutions, announced its third-quarter earnings results on Wednesday morning, and its stock responded by falling 3.53% in the day's trading session. The stock now sits more than 17% below its 52-week high of $71.32 reached back in June, so let's break down the quarterly results and the fundamentals of its stock to determine if now is the time to buy.

The results that failed to impress

Here's a quick breakdown of 14 of the most notable financial statistics from CCL's three-month period ended on September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Sales: CCL segment	$687.2 million	$639.5 million	7.5%
Sales: Avery segment	$212.0 million	$220.2 million	(3.7%)
Sales: Checkpoint segment	$162.6 million	$175.5 million	(7.4%)
Sales: Innovia segment	$95.6 million	–	>100%
Sales: Container segment	$49.4 million	$54.1 million	(8.7%)
Total sales	$1,206.8 million	$1,089.3 million	10.8%
Gross profit	$363.8 million	$312.6 million	16.4%
EBITDA	$240.1 million	$208.3 million	15.3%
Operating income	$185.3 million	$149.7 million	23.8%
Earnings before income tax	$152.0 million	$122.8 million	23.8%
Net earnings	$106.9 million	$86.1 million	24.2%
Basic earnings per share	$0.60	$0.49	22.4%

Adjusted basic earnings per share (EPS)	$0.61	$0.60	1.7%
Cash provided by operating activities	$193.5 million	$205.5 million	(5.8%)

Is now the time to buy?

It was a decent quarter overall for CCL, but nothing in the report stood out as impressive, so I think the 3.53% drop in its stock was warranted. However, it's important to note that the company posted strong results for the first nine months of 2017, with its sales up 20.7% to $3.52 billion, its operating income up 20.3% to $532.5 million, and its adjusted EPS up 10% to $1.86 compared with the year-ago period.

With all of this being said, I think the recent weakness in CCL's stock represents a fantastic investment opportunity for long-term investors for two fundamental reasons.

First, it's wildly undervalued. CCL's stock now trades at just 22.3 times fiscal 2017's estimated EPS of $2.63 and only 19.8 times fiscal 2018's estimated EPS of $2.97, both of which are inexpensive compared with its five-year average multiple of 25.1; these multiples are also inexpensive given its current earnings-growth rate and its estimated 12.9% earnings-growth rate in 2018.

Second, it's a dividend-growth aristocrat. CCL currently pays a quarterly dividend of $0.115 per share, equating to $0.46 per share on an annualized basis, which gives it a 0.8% yield. A 0.8% yield is not high by any means, but it's very important to note that CCL has raised its annual dividend payment each of the last 14 years, and its 15% dividend hike in February has it on track for 2017 to mark the 15th consecutive year with an increase. The company also has a dividend-payout target of 25% of its adjusted net earnings, so I think its consistently strong growth will allow its streak of annual dividend increases to continue for the foreseeable future.

CCL's stock has risen more than 90% since I first recommended it in June 2015, and I think it still represents a fantastic long-term investment opportunity today, so take a closer look and consider using the recent weakness to begin scaling in to a long-term position.

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