



Why This Stock Rallied +14% on Monday

Description

Just last Friday, I wrote in an article that **Intertape Polymer Group (TSX:ITP)** was [a value stock with a stable dividend and growth potential](#).

In the article, I had a cautious tone with a conclusion that “investors with a long-term investment horizon and who are looking for value and a stable dividend can wait for Intertape Polymer Group’s share price to stabilize near year end before considering a position. The stock can be especially volatile as the company is expected to report its third-quarter results this month.”

The stock was volatile all right — on the upside! Intertape Polymer Group reported its third-quarter results on Monday, and the market reacted by bidding up the shares by +14%!

Why did the stock rally?

Intertape Polymer Group’s revenue in the third quarter increased 17.9% compared to the same period last year. The growth primarily came from acquisitions, growth in average selling price, and an increase in sales volume from specific tape products. Comparing the first nine months of 2017 and 2016, its revenue increased 10.3%.

The sales growth translated to higher profitability. Specifically, the company’s adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) grew 8.7% in the first nine months this year compared to the first nine months in 2016. On a per-share basis, the company’s diluted earnings increased 46.9% in the period.

Management also expects the revenue from the acquisitions to contribute more meaningfully to the adjusted EBITDA over the next few quarters.



Furthermore, the company came out with positive news about its new manufacturing facility in Midland, North Carolina. The facility has started to produce water-activated tapes.

So far, Intertape Polymer Group has invested US\$46.1 million in the facility, and management estimates the project will not exceed US\$49 million this year. The company also believes it can “achieve an after-tax return of at least 15% on this project,” which is a good rate of return.

Due to expected higher demand for its products, the company also plans to invest another US\$13.5 million to expand the capacity of the facility (to be completed by early 2019).

Investor takeaway

The supply chain of some of Intertape Polymer Group’s key raw materials have been disrupted due to the major storms in southern U.S. The company will be offsetting the rise in input costs by announcing price increases to its customers. Overall, management doesn’t expect this will affect its 2017 results much.

With “about 63% of its sales from products, which had [a top two market position in North America](#),” Intertape Polymer Group stock should continue to make a steady recovery.

However, expect a bumpy ride. Anytime the stock trades close to \$18 per share or lower, long-term accounts can consider it. That said, based on the Street consensus, the stock still has +26% upside potential for the next 12 months.

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Date

2025/09/07

Date Created

2017/11/14

Author

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