Keep It Simple, Silly with This Western Canadian Gem

Description

Many of the most iconic investors of all time have preached investment strategies that are far from complex (think Warren Buffett and his ideology of investing in companies with proven track records and durable competitive advantages, or “moats”). In the ability of a select few to be able to condense a vast amount of information into viable strategies to selectively pick and choose long-term investments can be found a great deal of wisdom.

Taking the simplicity = wisdom calculation to the extreme is never a good thing, and investors should certainly consult with investment advisors before making any investment decisions. Utilizing data to make decisions, determining a valuation based on comps, valuation models or fundamental security analysis should reign supreme. That said, sometimes the best opportunities present themselves in easy-to-understand packages ready to be opened just in time for Christmas this year.

One such example of a company with a simple business model and strong fundamentals driving its business forward is **Westshore Terminals Investment Corporation** (TSX:WTE). Westshore owns and operates one of the largest coal terminals in North America operated in Vancouver, B.C. with a dominant market position within the coal transportation business.

The simplicity of Westshore’s business model can be found in the effective barriers to entry found in the agreements Westshore has with its customers. Westshore operates its coal terminal, generating revenue by charging customers a fixed fee per tonne of coal shipped. This revenue model is one that is impervious to the realities of the commodities industry; coal has been known to experience volatile swings (most recently to the downside), providing headwinds to producers within the industry. Being able to extract a relatively stable revenue stream over time in a rather unstable industry is perhaps one of Westshore’s most notable advantages.

The majority of Westshore’s contracts with its clients are take or pay contracts, which means that customers generally have to pay for the capacity they intend to use whether the customer uses it or not, providing Westshore with even greater cash flow stability.

Westshore’s current dividend yield of 2.5% provides modest, yet reasonable yield for long-term investors. Given the relative strength of Westshore's balance sheet and the company's strong cash base, investors should expect dividend increases in 2019 and beyond as the company completes its large $300 million capital expenditure program to update its facilities and equipment at its terminals.

Bottom line

In an aging industry, Westshore is one of those simple businesses that offers excellent long-term upside for those bullish on general economic growth.

While coal may indeed be on its way out the door in 30-50 years, Westshore's ability to churn out high levels of profitability in the decades to come justify an investment in the company's future cash flows at current (and rather attractive) levels.

Stay Foolish, my friends.

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chrismacdonald