Why Transcontinental Inc. Is Down Over 1%

Description

Transcontinental Inc. (TSX:TCL.A), Canada's largest printer and one of North America's leading suppliers of flexible packaging, announced its fourth-quarter earnings results after the market closed on Thursday, and its stock has responded by falling over 1% in early trading today. Let's break down the results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity.

A lacklustre quarterly performance

Here's a quick breakdown of eight of the most notable financial statistics from Transcontinental's three-month period ended October 29, 2017, compared with its three-month period ended October 31, 2016:

Metric	Q4 2017	Q4 2016	Change
Printing & Packaging Sector revenue	$479.3 million	$484.6 million	(1.1%)
Media Sector revenue	$54.1 million	$82.1 million	(34.1%)
Total revenue	$527.2 million	$555.6 million	(5.1%)
Adjusted operating earnings	$98.4 million	$107.4 million	(8.4%)
Adjusted operating margin	18.7%	19.3%	(60 basis points)
Adjusted net earnings	$68.3 million	$76.6 million	(10.8%)
Adjusted net earnings per share (EPS)	$0.88	$0.99	(11.1%)
Cash flows from operating activities	$111.4 million	$60.8 million	83.2%

Should you buy on the dip?

It was a disappointing quarter for Transcontinental, and it finished off a weak year for the company, in which its revenue decreased 0.6% to $2.01 billion, and its adjusted EPS increased just 3.2% to $2.61 when compared with fiscal 2016. With these results in mind, I think the weakness in its stock is warranted, but I think it represents an intriguing long-term investment opportunity for two fundamental reasons.

First, it trades at very low valuations. Transcontinental's stock now trades at just 9.8 times fiscal 2017's adjusted EPS of $2.61 and only 9.7 times fiscal 2018's estimated EPS of $2.63, both of which are inexpensive given its strong cash flow-generating ability and its position as a leader in the majority of the markets it serves.

Second, it's a dividend aristocrat. Transcontinental currently pays a quarterly dividend of $0.20 per share, representing $0.80 per share annually, which gives it a juicy 3.1% yield today. It's also very important to note that 2017 marked the 16th consecutive year in which it has raised its annual dividend payment, and its 8.1% hike in March has it positioned for fiscal 2018 to mark the 17th consecutive year with an increase.

Transcontinental's stock has returned over 78% when including reinvested dividends since I first recommended it on December 17, 2014, and I think it still represents an attractive long-term investment opportunity today, so take a closer look and consider beginning to scale in to a position.

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