



2 Upgrades Give This Logistics Company Hope

Description

TFI International Inc. ([TSX:TFII](#)) CEO Alain Bedard didn't candy coat the company's Q4 2017 earnings results announced February 20.

"The fourth quarter capped a year of continued strong progress on our key initiatives, including greater operational efficiency and continued robust cash flow," said Bedard in TFI International's press release. "Organic growth in operating income was strong in 2017 excluding our U.S. Truckload operations."

Despite throwing cold water on its earnings report — its truckload operations failed to increase operating income in 2017, the only segment among four to not deliver for shareholders — analysts are optimistic about the company's future.

Analysts recommend investors buy

Two analysts upgraded the company's stock February 21; that had TFI International up more than 10% on the day's trading.

"For the U.S. TL [Truckload] segment, management expects a gradual recovery throughout the year as contractual rates increase along the renewal process," said Desjardins Securities analyst Benoit Poirier in his note upgrading TFII to a buy. "On top of that, management also expects some improvement in profitability in the LTL [Less-Than-Truckload] business by increasing its exposure to the asset-light LTL intermodal business."

Not to be outdone, **Laurentian Bank** Securities analyst Mona Nazir also raised its recommendation on TFI International to buy from hold with a 12-month price target of \$34.

"We believe upside exists from the current price which is supported by multiple expansion (valuation gap), active buyback program, potential U.S. listing and double-digit FCF yield," stated Nazir.

As long as the U.S. economy continues to sing, there's no reason TFI International can't fix the issues that plague its U.S. truckload operations.

In the meantime, Fool contributor Joseph Solitro chimed in on his view of TFI International, [arguing](#) that its 2.6% yield combined with a 10.5% dividend hike in December makes it a great dividend stock

to own; I couldn't agree more.

He also points out, as did Poirier, that the company's stock is undervalued, trading at just 14 times its 2018 EPS of \$2.33, much lower than its five-year average.

Free cash flow gem

In October 2016, I'd [recommended](#) TFI International along with **Great Canadian Gaming Corp.** (TSX:GC) and **Linamar Corporation** ([TSX:LNR](#)) because of their ability to generate free cash flow. At the time, TFI had a free cash flow yield of 9.2%; today, as Nazir pointed out, it's in double digits (anything above 8% is considered value territory), confirming Solitro's assessment that it's undervalued.

Since my 2016 article, TFI International, Linamar, and Great Canadian Gaming have delivered cumulative total returns of 24.3%, 27.5%, and 49.9%, respectively, for an average return of 33.9%, which isn't half bad compared to the TSX Composite, which is up 10.1% over the same period.

In fiscal 2017, TFI International increased free cash flow by 30.6% to \$376.5 million — a record amount for the company and an indication that things are trucking along just fine, despite the problems in the U.S.

Few CEOs impress me. Alain Bedard is an exception. With his leadership, shareholders should expect more good news in 2018.

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