



Parkland Fuel Corp.: A High-Growth Stock Poised to Beat the Market

Description

Canada's largest independent supplier of fuel and other petroleum products, **Parkland Fuel Corp.** ([TSX:PKI](#)), has expanded at a rapid clip in recent years. It has fueled this growth through a steady stream of accretive acquisitions, which have boosted earnings, allowing it to reward investors with regular dividend hikes. While the company had risen by 8% since the start of 2018, there are signs that it will appreciate further over the remainder of the year.

Now what?

Parkland has a long history of making successful acquisitions, which have given earnings a solid lift and boosted its profitability. During 2017, these included completing the needle-moving \$1.46 billion deal to buy **Chevron Corporation's** [downstream](#) Canadian business and the \$985 million purchase of the majority of the Canadian business of **CST Brands, Inc.**. These deals gave Parkland's earnings a solid lift and now see one in six of Canadian gas stations either being owned or supplied by Parkland.

For 2017, sales revenue almost doubled compared to 2016, while adjusted earnings before income, taxes, depreciation, and amortization (EBITDA) shot up by a remarkable 65% to \$418 million. That impressive performance was supported by a 28% increase in fuel volumes as well as the significant expansion of its retail service station and convenience store businesses. There are signs that Parkland's earnings will keep growing at a rapid clip, as further synergies and efficiencies are unlocked as the company focuses on bedding down those deals.

A key step to implementing further efficiencies and readying its business for further growth was the successful completion of the Burnaby Refinery turnaround earlier this month; the facility is now fully operational.

Importantly, during 2017 and early 2018, Parkland took the opportunity strengthen its balance sheet and reload its coffers by completing a \$662 million common share offering and \$500 million senior unsecured note placement. That saw Parkland finish the year with considerable liquidity, including \$22 million in cash. While its total debt comes to \$2 billion, it is quite manageable when it is considered that it only comes to 2.6 times Parkland's EBITDA.

The company also has a well-laddered debt profile with no material repayments due until 2021, when Parkland's credit facility totaling \$823 million is to be repaid. That gives Parkland considerable time to grow its earnings and cash flow to pay down its debt.

There are also a range of macro factors that will support Parkland's growth, including stronger economic growth in the U.S. and Canada, which will drive greater consumption as well as travel, leading to higher demand for fuels. Because fuels are an essential element of modern economic and social activity, demand is relatively inelastic, virtually guaranteeing Parkland's earnings and helping to shield the company from economic downturns.

So what?

The scale of Parkland's business and the completion of two transformative acquisitions in 2017 leave the company [well positioned](#) to benefit from an increasingly upbeat economic outlook. That should see its bottom line continue to grow over the course of 2018, supporting further dividend hikes and a higher share price. While investors wait for that to occur, they will be rewarded by Parkland's monthly dividend, which yields a juicy 4%.

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