This Canadian Dividend Aristocrat Offers 42% Upside!

Description

For a value investor, it's exciting to discover a company that is unloved by the market. Sometimes there are valid reasons for a stock's decline. Stay away from these.

In other cases, the market has overreacted to earnings and one-time events. Perhaps there's no clear reason for the decline. Regardless, these are the companies value investors seek out.

One easy way to identify which companies that are unloved by the market is to seek out those that are trading near 52-week lows. One such company is **Intertape Polymer Group Inc.** (TSX:ITP).

Year-to-date, the company has lost almost 17% of its value. Intertape's current market price is more than 30% below its 52-week high of $25.41 reached in July of last year. It has been on a steady decline ever since.

Is this Canadian Dividend Aristocrat, who has raised dividends for six consecutive years, a value trap? Let's take a look.

Mixed earnings

Intertape is the furthest thing from consistent. The company has missed earnings estimates in three of the last four quarters and missed on the top line in each case. I believe this is the main reason for the company's recent struggles.

The company's most recent earnings miss of 25% was one of the more pronounced. Since posting first-quarter results, Intertape stock has dropped another 5%.

Declining financials

Let's dig deeper into those earnings.

At first glance, the company's 14% increase in first quarter revenues is a good sign. However, it was largely a result of the additional sales from a recent acquisition. Organic volumes were actually negative.

In the first quarter, gross margins dropped by 100 base percentage point (BPS) year-over-year (YOY) and 150 BPS over the fourth quarter of 2017 — not great.

Likewise, cash flows and earnings before interest, taxes, depreciation and amortization also took a turn for the worse.

Outlook

According to its first-quarter presentation, Intertape expects revenues and EBITDA to increase in the second quarter. Long-term, the company expects to achieve a revenue compound annual growth rate (CAGR) of 17% through 2022.

What about earnings? Analysts' expect the company to post 14% earnings growth in 2019.

Management also tried to ease concerns over a declining gross margin. On its first-quarter earnings call, President and Chief Executive Officer Gregory Yull commented that the "gross margin compression…is expected to be temporary".

Bargain prices

Trading at 11 times earnings, Intertape looks cheap. In comparison, the company has historically traded at a multiple of 13 times earnings. Should the company trade in line with historical averages, the stock would be looking at 20% growth.

Analysts' also have high expectations for the company. Five of the seven analysts covering the company rate it a buy. Likewise, the average street price target is $25.17, which implies 42% upside!

The company has struggled to execute on its strategy, but it continues to grow revenues at an impressive pace. Trading at 52-week lows, I believe that the market is overly bearish and discounting its potential growth.

Intertape is a good rebound candidate for the second half of the year.

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