



Get Excited About This Value Stock Opportunity

Description

Intertape Polymer Group ([TSX:ITP](#)) stock has declined about 19% year to date. It's partly because the company's first-quarter selling, general, and administrative expenses increased 12.1% to \$29.1 million, which was partly due to costs related to the Cantech acquisition. The increased costs led to a decrease in net earnings of \$2.1 million to \$11.4 million compared to the same period in the previous year.

The short-term pain can lead to long-term gain. Intertape completed the acquisition of Cantech early this month. It expects Cantech to strengthen its market position in tape manufacturing. Cantech manufactures industrial and specialty tapes.

A business overview

Intertape is the second-largest tape manufacturer in North America. About two-thirds of the sales of its products have a market leadership position in North America.

Where does its growth come from?

Intertape has completed a number of acquisitions in the past, resulting in high returns on equity (ROE) of at least 22% every year since 2015, while the company's trailing 12-month ROE is nearly 26%.

Other than acquisitions, Intertape has also been building facilities to expand its production to meet estimated demands. At the end of last year, Intertape built a greenfield facility on time and on budget for \$48 million. This facility expanded its water-activated tape capacity.



Intertape is also working on two greenfield facilities in India that will be used to manufacture low-cost woven products and carton-sealing tapes. The company estimates to invest \$46-52 million to build these facilities, which are expected to complete in the first half of 2019.

Intertape's 2017 revenue growth was 11%. This year, it expects revenue to grow at a similar pace as last year and adjusted earnings before interest, taxes, depreciation, and amortization to grow 4-12%.

Valuation and upside potential

At \$17.34 per share as of writing, Intertape stock trades at a price-to-earnings multiple of about 12.3, which is at the low end of its valuation range since 2014.

The analyst consensus from **Thomson Reuters Corp.** has a 12-month target of US\$19.20 per share, or about CAD\$24.50 per share, which implies more than 40% upside potential in the near term. However, it's better to be conservative and assume that the upside will take longer materialize — perhaps over a span of two to three years.

Dividend

Intertape offers a safe dividend that's covered well by earnings with a payout ratio of about 50%. The effective yield of its U.S. dollar-denominated dividend will fluctuate depending on the strength of the U.S. dollar against the Canadian dollar for shareholders opting to receive the dividend in Canadian dollars. Intertape pays an eligible dividend that's favourably taxed in a non-registered account.

Investor takeaway

Intertape is growing its business by acquisitions and expanding its capacity. If it grows the business in a responsible manner and keeps costs in check, the stock can make a strong comeback in the next few years. The [well-valued stock](#) also offers [a safe dividend yield](#) of about 4.2%.

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