Bring in Monthly Income With K-Bro Linen Inc. (TSX:KBL)

Description

If you have spent any time around nursing homes and hospitals in Canada, one thing you will notice is that **K-Bro Linen Inc.** (TSX:KBL) carts and containers are everywhere. In every hallway, there are stacks of used linens and mobile carts waiting to be hauled away to be washed, cleaned, folded, and returned to be used once again in hospital rooms. Since hospitals aren't going away any time soon, it stands to reason that K-Bro Linen will have business for a while.

But it isn't only the medical field that K-Bro serves. The company also provides linen services to various hospitality businesses such as airlines, hotels, and even remote camps for multiple industries. The company uses its scale to reduce the costs of cleaning and drying linens to a much lower level than the industries it serves could ever achieve. Revenue is almost evenly split between its two operating segments with Healthcare providing 58% and Hospitality providing 42%.

K-Bro has become the largest healthcare and hospitality laundry and linen processor in Canada. The company also operates in the U.K. and Europe, where it has become one of the largest serving those nations as well. And while it is Canada's largest linen-cleaning company, there is still lots of room for growth, as the industry continues to consolidate.

One of the strengths of its business model is that it derives its revenue from stable, long-term contracts. In Canada, 45% of its revenue comes from contracts that extend past 2023. Many of those contracts are five to 10 years in length, so it has a large amount of visibility for using funds to invest in the business, pay down debt, or continue to pay its dividend. Its contracts are frequently renewed, with 98% of customers or more deciding to continue to use K-Bro's services.

The company is performing fairly well recently, with revenue increasing 41% year over year. EBITDA increased a healthy 29% as well. Earnings were down 62%, although this was primarily due to increased investment, mainly the Toronto and Vancouver facilities.

In order to meet demand, K-Bro has been making significant long-term investments in the business recently. In both Toronto and Vancouver, for example, the company has spent millions building new plants to service its customers' needs. It has also been making acquisitions, such as Linitek in Canada, and Fishers, a northern U.K.-based company, to expand its presence at home and in Europe.

However, those plants and acquisitions have come at a cost. These strategies have resulted in a weakening of the company's balance sheet. The company has taken on a significant amount of debt to pay for these expansions. And while the acquisitions may be accretive, large amounts of debt can be dangerous, even for healthy companies. The company is relying on its stable revenue streams to pay down the debt as well as its positioning within stable, recession-proof sectors such as health care.

Even though K-Bro hasn't raised its monthly dividend since 2014, it pays a respectable 3% at the current share price. But given the amount of debt the company now holds, dividend raises may not be happening until K-Bro begins to strengthen its balance sheet once again.

K-Bro Linen is interesting as a potential long-term hold. Its debt does raise some concerns, having almost doubled over the past year as a result of its acquisitions and plant expansions. But its long-term contracts provide revenue and earnings visibility and stability, and it operates in a much-needed sector. It would be nice to see K-Bro increase the dividend, but growing the business is the top priority at present. K-Bro could be a good long-term hold for a dividend investor.

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