# This Dividend Stock Keeps on Trucking

## Description

**TFI International** (TSX:TFI) is a dividend stock Warren Buffett would love.

It pays a nice dividend, operates an easy to understand business (trucking), and trades at a discount to many of its peers in the U.S., making TFI not only a good dividend stock, but a good value play as well.

Fool contributor Joey Frenette wrote an excellent article recently addressing beginner investors. In the article, he explains how beginners can invest like Warren Buffett using a Canadian twist for domestic consumption.

One of the stocks in his article was TFI.

"The railroads are the heart of the economy, and truckers like TFI International Inc. are the blood vessels," wrote Frenette August 24. "At today's levels, I believe that both **Canadian National Railway** and TFI International are stable Canadian stocks that exhibit qualities of a business that Buffett would have loved."



While I agree with my colleague 100% about his Buffett remark, it's his observation that truckers are the blood vessels of an economy that caught my attention because when I was my kid, my dad would always point out the number of trucks on the road — a sure sign the economy is hopping.

So, the fact that TFI International's business is booming is about as good an indication that the economy is as well.

**Here's why I like TFI**

The first time I recommended TFI stock was back in 2016 when it operated as TransForce Inc. At the time, I selected three companies I thought were strong generators of free cash flow while also attractively priced at a free cash flow yield of 8% or more.

The other two stocks: **Great Canadian Gaming** (TSX:GC) and **Linamar** (TSX:LNR). Together, they've averaged a 53% cumulative return over the past 23 months, which is significantly better than the TSX.

Flash forward to today and its business has completely rebounded from last year's profit troubles with operating income growing by 64% in the second quarter to $122.0 million with a 400-basis-point increase in its operating margin.

And that's on a negligible increase in revenue — net of the fuel surcharge they increased less than 1% to $1.16 billion in Q2 2018 — which suggests that the quality of its revenue has increased dramatically over the past 12 months.

Alain Bedard, in my opinion, continues to do a masterful job running TFI, and it shows in its latest quarterly report.

**Free cash flow**

It always comes back to free cash flow.

In the first six months of 2018, TFI's free cash flow increased by 96% year over year to $149.5 million. On an annualized basis, its free cash flow is $299 million, higher than it's ever been.

Based on a current enterprise value of $5.6 billion, it has a free cash flow yield of 5.3%, which is 300 basis points lower than when I wrote about it two years ago. Of course, that's what happens when your stock increases by 70%, your free cash flow yield goes down, which is a good thing.

With TFI trading at 14 times earnings and an FCF yield above 5%, TFI is a dividend investors' dream stock.

**CATEGORY**

1. Dividend Stocks
2. Investing



**TICKERS GLOBAL**

1. TSX:LNR (Linamar Corporation)
2. TSX:TFII (TFI International)

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