



Is Parkland Fuel Corp. (TSX:PKI) the Next Great Consolidator?

Description

Parkland Fuel ([TSX:PKI](#)) is having a great year on the markets, up 66% year to date through September 27. That makes it the eighth best-performing TSX stock with over a \$1 billion market cap.

Several Fool contributors feel that it's still got a lot of room to run despite its gains in 2018.

"Even after the recent rally, Parkland shares offer a decent yield of 2.7%," wrote the Fool's Brian Pacampara. "That might not seem like much, but given the solid cash flow and operating momentum backing it up, the risk/reward trade-off seems enticing."

Indeed it does, Brian. Indeed it does.

In the trailing 12 months ended June 30, 2018, Parkland's free cash flow was \$168 million, the highest it's ever been. In the first six months of 2018, Parkland's adjusted distributable cash flow was \$249 million, which is almost three times more than in the same quarter a year earlier.

M&A leads the way

Parkland, like **Alimentation Couche-Tard** (TSX:ATD.B), grows its business through acquisitions, something the Fool's Joey Frenette discussed in August.

"Alimentation Couche-Tard and Parkland Fuel are two low-tech M&A companies that are growing their earnings through accretive acquisitions that have consistently resulted in "1+1=3" scenarios through the creation of synergies," Frenette [stated](#) August 6. "Both companies have impeccable management teams that can juice ample synergies from accretive acquisitions."

When it comes to acquisitions, Couche-Tard founder Alain Bouchard and CEO Brian Hannasch make a good team. Looking to [Asia](#) for growth because prices are too high in North America, Parkland is about to prove whether it can play the M&A game on a bigger stage.

Frenette likes Couche-Tard's stock over Parkland's because of the valuation; it's a value play set to become a growth stock as soon as Bouchard and Hannasch land their next big fish.

While I think ATD.B is a great stock to have in your portfolio, I'm not ready to pronounce it a better buy than Parkland.

Here's why.

U.S. expansion

On August 28, Parkland announced that it had acquired Missouri Valley Petroleum (MVP), a North Dakota distributor of petroleum products. MVP distributes 318 million liters of fuel and petroleum products annually. In addition, MVP owns six convenience stores that also retail fuel.

Although it's a tuck-in acquisition and not a transformational purchase like its Esso deal in Canada, it demonstrates that its management are willing to do deals — small and large — to expand its U.S. footprint.

"We are aggressively expanding in the U.S.," said Parkland USA President Doug Haugh recently. "In 2017 we achieved ubiquitous coverage across Canada, and not that we're finished growing, but it's the initial completion of our footprint in the Canadian market, meaning that you can start in New Brunswick and drive all the way to Vancouver, across all of Canada, and never stop anywhere else except one of our stores."

Parkland is in the middle of remodeling its On the Run stores here in Canada — 60 are completed, with the rest expected to be done in the near future — with any acquired stores in the future getting the On the Run branding for the convenience store portion of any gas stations. The fuel brands won't change.

Ironically, Couche-Tard owns the On the Run brand in the U.S., so Parkland is developing its own banner for its convenience stores south of the border. It will utilize many of the On the Run design features to save on costs, and expects to have a pilot store of the new banner up and running by the end of Q1 2019.

To date, it has grown a small network of stores in North Dakota, a region very similar to Calgary, where Parkland is based. I would expect that most of its future acquisitions will be in the middle to western parts of the U.S., branching out from there once it has gained some scale.

Can Parkland become the next great consolidator?

Couche-Tard's consolidation in the U.S. came at a time when there was less competition and acquisitions weren't nearly as expensive as they are right now.

That said, there are still plenty of small- to mid-sized independent convenience-store chains available for the right price, so it's not impossible that Parkland could become the next great consolidator in the U.S.

Ten years ago, investors had never heard of Parkland, so I'd be reluctant to bet against it.

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