Which of These 2 Stocks Is a Bargain?

Description

The stocks of **CCL Industries** (TSX:CCL.B) and **Intertape Polymer Group** (TSX:ITP) have dipped about 18% and 20%, respectively, from their 52-week highs. Which of the stocks from the packaging and containers industry should you buy?

Let's first compare the two.

Business overview

CCL Industries is the world's largest label company. It makes and sells packaging-related products and has a diversified customer base, as it serves global markets of home and personal care, food and beverage, healthcare and specialty, automotive, electronics and consumer durables, and retail and apparel. It operates 168 manufacturing facilities in 40 countries across North America, Latin America, Europe, Asia, Australia, and Africa.

In the last few years, CCL Industries made a number of key acquisitions, including Innovia and Checkpoint, which expanded its offerings, respectively, in polymer banknotes and technology-driven, loss prevention and inventory management labeling solutions for the retail and apparel industry.

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.

Recent results

In the first half of this year, CCL Industries increased sales by about 8% to $2,491.5 million, boosted operating income by about 15% to $400.2 million, grew net earnings by roughly 21% to $239.8 million, and increased earnings before interest, taxes, depreciation, and amortization (EBITDA) by 10% to $504.3 million.

On a per class B share basis, CCL Industries' basic earnings increased by about 20% to $1.36 and its adjusted basic earnings climbed 11% to $1.39.

For the first half of the year, Intertape experienced revenue growth of 16.5% to US$486 million compared to the same period in 2017. It also reported adjusted EBITDA growth of 5.4% to US$64.8 million. As well, its diluted earnings per share increased 12.5%.

Profitability and performance

Both companies have been good capital allocators in the recent past with double-digit returns on equity (ROE). However, Intertape experienced huge losses around the time of the last recession, and it took several years for the company to turn around.

CCL Industries had a recent net margin of 10.5%. Its five-year return on assets (ROA) and ROE were 7.8% and 19.1%, respectively. Intertape had a recent net margin of 7%. Its five-year ROA and ROE were 11% and 26.4%, respectively.

Valuation

At about $55 per share as of writing, CCL Industries trades at a forward price-to-earnings ratio (P/E) of about 19.2, while some analysts estimate the company will grow its earnings per share by about 12% for the next three to five years.

At about $18 per share as of writing, Intertape trades at a forward P/E of about 12.8. So, it's more of a value play compared to CCL Industries. It also offers a safe yield of roughly 4%.

Investor takeaway

CCL Industries is a larger and more diversified company, with a stronger balance sheet and a better long-term profitability track record. It fared much better in the last recession compared to Intertape.

That said, the latter is a better value and offers a decent yield of about 4%. The analysts from **Thomson Reuters** thinks there's +30% upside on Intertape stock over the next 12 months.

If you're looking to build a quality portfolio for long-term investment, consider CCL Industries at current levels or on further dips. If you want potentially greater returns, consider buying Intertape that seems to be a bigger bargain.

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