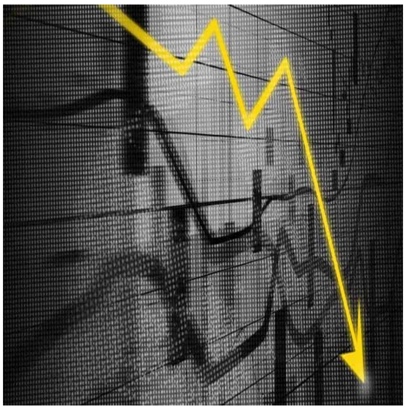

Is This Transforming Company a Buy After Falling by a Third?

Description

Transcontinental (TSX:TCL.A) stock has come off significantly from its 52-week high — by +34%. The stock has done very well over the last five years or so until it peaked in late August and has been falling since.

What's happening with the company? Let's investigate.

The transforming business

Transcontinental is Canada's largest and one of North America's largest printers. The company has been helping publishers and marketers deliver their content via integrated and innovative printing solutions for more than 40 years.

It prints flyers, newspapers, magazines, catalogues, books, in-store marketing products, and more, from creative design to distribution. Some of its customers include *The Gazette* and the *Toronto Star*.

In 2014, it began transitioning the company into packaging, which is a higher growth area. It did so by divesting some of its printing assets and buying Capri Packaging.

This year, Transcontinental three acquisitions in flexible packaging, including Coveris Americas, Multifilm, and Flexipak.

The company has essentially been remodeled, changing its revenue mix from 69% in printing; 29% in media; and 2% in packaging in 2014 to 44% in printing; 3% in media; and 53% in packaging after these acquisitions. It creates packaging, such as barrier films, pouches, and multi-wall bags and coatings.

For a purchase price of about $1.72 billion, Transcontinental acquired Coveris. It was a key acquisition because Coveris has an international footprint in the United States, Canada, Ecuador, Guatemala, Mexico, the United Kingdom, New Zealand, and China. It also expanded Transcontinental's customer base by bringing in 3,500 customers. Furthermore, management expects meaningful synergies that will materialize within 24 months of the integration.

Is the stock discounted?

As Transcontinental is a very different company from a few years ago, it wouldn't be meaningful to compare its current valuation with its historical valuation.

That said, at $20.87 per share as of writing, the company trades at a blended price-to-earnings multiple of about eight. Assuming modest growth of 6% per year, the stock is reasonably valued today.

Let's not forget Transcontinental offers a safe dividend yield of 4%. It has increased its dividend per share for 16 consecutive years, and its three- and five-year dividend growth rates were 7.9% and 6.6%, respectively.

Investor takeaway

When a company makes a big acquisition, it's seldom smooth sailing. It's going to take time to digest it. With the Coveris acquisition, Transcontinental has become a top 10 flexible packaging leader in North America, which still leaves it with lots of competition. Nonetheless, the acquisition should position Transcontinental to be in a better position.

Investors need to be patient with the stock, but I wouldn't back up the truck just yet. Interested investors can consider buying some shares here and averaging down should it experience more hiccups with its integrations.

There are more attractive stocks to buy with the recent market pullback.

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