



## 3 Important Reasons Why I Just Bought Transcontinental Inc. (TSX:TCL.A)

### Description

October's great sell-off continues to be a boon for long-term investors.

Some of Canada's best stocks are down 10%, 30%, and even 50% from their 52-week highs. Although the carnage does seem to be mostly contained to stocks with high exposure to rising interest rates, there are bargains in every corner of the market. Valuations have gone from being stretched to downright reasonable.

**Transcontinental Inc.** ([TSX:TCL.A](#)) is one stock that has been caught up in this carnage. Shares are down by about a third over the last few months, due to a number of different factors.

I just couldn't pass up on this bargain. Here are the three main reasons why the company is now part of my portfolio.

### Valuation

[Many value investors agree.](#) Transcontinental is a ridiculously cheap stock.

The year 2018 results will be skewed by its recent acquisition of Coveris Americas, which has gained the company a major foothold into the lucrative flexible packaging industry. And 2017 saw the company earn \$212 million in net income and \$275 million in free cash flow. Shares have a current market cap of \$1.9 billion, even after accounting for the stock issued to pay for the acquisition. Thus, shares trades at less than 10 times earnings and nine times free cash flow even if Coveris Americas doesn't add a nickel to the bottom line.

Transcontinental is also cheap on a price-to-sales basis and on a price-to-book value perspective.

The argument against a cheap valuation is always the same. The stock is cheap because it's a crummy business. But Transcontinental has consistently posted operating margins of close to 15%, and management does a terrific job keeping costs under control. To sum it up, I believe Transcontinental is a good business the market has unfairly characterized as a bad one.

## The steady printing business

Before management started steering the company towards flexible printing, Transcontinental was known for two things — printing grocery flyers and newspapers. The company even took this a step further, acquiring a number of community papers.

The papers are gone, but the flyer business remains. It seems like a relic of a forgotten time. We have the internet now! Why do we still get flyers, anyway?

There's one simple reason why all that paper shows up in your mailbox every week: it works. Good deals drive traffic, and the best way to communicate those deals to customers is by sending them a flyer. In Canada's hyper-competitive retail market, every advantage helps.

The flyer business is Transcontinental's cash cow. It provides dependable earnings that are used to power growth projects as well as paying investors their dividends.

Speaking of dividends...

## Dividend growth superstar

Transcontinental has quietly been one of Canada's best dividend-growth stocks.

The company has increased its quarterly payout from \$0.08 per share in 2009 to \$0.21 per share today, good enough for an annual growth rate of 11.5%. Despite all that growth, the company still has a very reasonable payout ratio, with just 30% of earnings going toward paying dividends.

This means that the company can easily continue raising the dividend, even if earnings do stagnate for a couple of years. I believe management when they say Coveris America will start adding to the bottom line soon, but even if it doesn't, investors don't have to worry much. Their dividends are still easily covered.

## The bottom line

Transcontinental is a solid company trading at a dirt-cheap valuation. It has an excellent history of dividend growth, and its shares currently yield 4%. It's the kind of company I can envision holding for a very long time.

## CATEGORY

1. Dividend Stocks
2. Investing

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