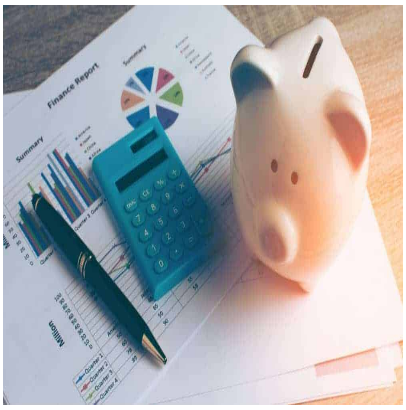

3 Reasons This HR Stock Is TFSA Worthy

Description

Finance minister Bill Morneau's former company announced strong third-quarter results November 6. It's an indication **Morneau Shepell's** (TSX:MSI) latest acquisition was a brilliant move that bodes well for MSI stock heading into 2019.

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If you're looking for a TFSA-worthy addition to your stock portfolio for the year ahead, here are three reasons why you can't do much better than Morneau Shepell.

Really profitable

As I said at the top, Morneau Shepell delivered a barn-burner of a quarterly report November 6.

On the top line, revenues were 19.9% higher than a year earlier at $182.8 million, while adjusted EBITDA was up 20% to $34.0 million for an 18.6% margin.

"Moving forward, we're confident in delivering a very solid year of results, given our year-to-date performance and our strong pipeline growth in the quarter," said Morneau Shepell CEO Stephen Liptrap. "We expect to keep building on our momentum and executing our strategic plan towards the goal of being a leading HR power brand."

An HR power brand … it's got a nice ring to it.

And don't be fooled by the $9.6 million loss in the quarter. That was due to $22.3 million in acquisition-related expenses from buying LifeWorks during the summer for $426 million. Normalized free cash flow was $23.1 million during the third quarter — a 34% increase from a year earlier.

Consistent returns

Morneau Shepell continues to deliver for shareholders, whether we're talking about its financial results or actual shareholder returns.

Over the past decade, Morneau Shepell has delivered revenue growth every year. Regarding operating income, it's increased by 294%, although in much less of a straight line.

What has that meant for its stock?

It's got an annualized total return of 14.8% over the past decade, 635 basis points higher than the **S&P/TSX Composite Index**. It's been so consistent, it hasn't had a down year since 2015. Before that, you have to go back to 2008.

Up 25.1% year to date through November 16, assuming this holds, Morneau Shepell will have delivered its fourth year out of the last five with an annual return of 18% or higher.

The last thing you want to do is include a loser in your TFSA, because you can't use the capital gains losses to offset gains, and you don't get a tax deduction up front to save you a little at tax time.

A growth industry

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Anything HR related is a hot commodity these days, given the relatively tight hiring market. Benefits, pensions, wellness, all of these things are the difference between attracting outstanding talent and mediocre talent.

Not to mention, it's operating in the professional services industry, which is said to be growing at 13% a year in Canada. Anything double digit is worth examining more closely.

I first recommended Morneau Shepell stock back in 2017, suggesting that the company's ability to consistently deliver strong organic growth through recurring revenues would continue to push its share price higher.

Add in a newfound appetite for acquisitions such as LifeWorks, and you're looking at a company worthy of a forward P/E of almost 30 and a price-to-cash flow quickly approaching 20.

Paying up for quality never grows old. That's why Morneau Shepell stock is TFSA worthy.

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