Buy This Rapidly Expanding, Recession-Resistant Company

Description

Parkland Fuel Corp (TSX:PKI) has been one of the most reliable companies in the TSX in recent years. Since 2011, it's posted positive annual returns every single year. To boot, it's also paid out a steadily increasing dividend, which now tops 3%.

If you had bought and held the stock since 2011, you would have experienced a smooth 250% return compared to a mere 16% for the TSX average.

Recently, the company has been making some major moves to continue its impressive run. And due to the nature of its industry, growth typically comes with better pricing power, lower costs, and higher profits.

A simple business with great economics

Parkland Fuel is one of the largest fuel and petroleum providers in the U.S. and Canada. The company delivers fuels like gasoline, diesel, propane, and heating oil to motorists, businesses, households, and wholesale customers. For example, Parkland Fuel supplies one of every six Canadian gas stations.

Last year, they delivered 17 billion litres of fuel (reaching 1,849 gas stations alone), generating an impressive $775 million in EBITDA. Management has done a terrific job expanding its EBITDA potential since inception. In 2010, for example, EBITDA generation was just $100 million. It's grown nearly every year since.

Organically, management aims to grow between 3% and 5% annually. But in this industry, scale matters. If you're already servicing a certain area, it costs fairly little to add another nearby customer to your route. Scale is the best way to ramp margins, which gives you a useful tool to lower prices farther than any other competitor can afford.

Over the past few years, Parkland Fuel's management team has done an admirable job acquiring strategic companies that position the company well for future EBITDA growth.

Digesting several transformational acquisitions

In 2019, expect the company to focus on integrating several new businesses. This should reliably translate into increased EBITDA and cash flow, all of which is incredibly resistant to economic volatility.

In March of 2018, Parkland Fuel sold $500 million of senior unsecured notes due 2026 with an average weighted interest rate of just 6%. Reloading its coffers should have been a sure sign that the company was about to make moves.

In August, it acquired all of Rhinehart Oil, a fuel distributor that delivers 72 million gallons of fuel and lubricants per year. The deal was fully funded through cash flows and its recent notes sale. A few weeks later, the company acquired Missouri Valley Petroleum, fully funded through the same sources.

By early October, the biggest chips started to fall. That month, Parkland Fuel purchased 75% of privately-held SOL Investments, the largest independent fuel marketer in the Caribbean. For 75% of the business, Parkland Fuel paid $1.57 billion, retaining the right to buy the remaining 25% interest at a later time. The deal adds 526 retail gas stations to its portfolio.

All of these deals follow a massive 2017 deal to buy Chevron’s gasoline stations and refinery in British Columbia for $1.46 billion.

2019 will be a year of consolidation

While investors should be wary of a company going on a buying spree, Parkland Fuel is the rare exception. It’s been careful to keep debt levels low, servicing many of its deals using its impressive cash flow generation.

Also, there’s solid rationale to the acquisitions. Parkland Fuel operates in an industry where whoever gains the biggest scale wins. With major moves in both 2017 and 2018, expect management to focus on turning these acquisitions into cash flow machines.

With an economically resilient business model, Parkland Fuel should continue to thrive no matter what the overall market does.

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