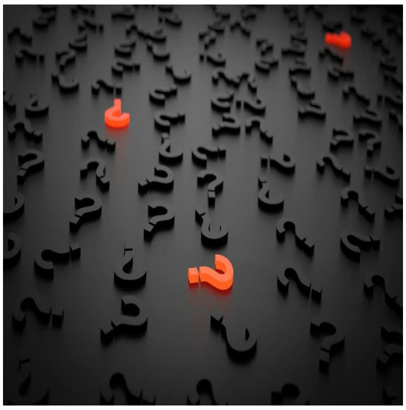

Can This Segment Save Transcontinental Inc. (TSX:TCL.A)?

Description

Transcontinental (TSX:TCL.A) is one of North America's largest printers. The company's printing and media segments have been losing major ground, however. Much of the printing industry has been negatively affected by the advent of technological innovations, most notably the internet.

While the printing industry lives on in various forms, many companies, including TCL, saw it fit to focus more on other business segments. Over the past few years, TCL has been aggressively trying to improve its flexible packaging operations.

TCL's flexible packaging segment

According to the flexible packaging association, flexible packaging is one of the fastest-growing trends in the packaging sector. This technique relies on the use of certain "easily yielding" materials (plastic, foil, paper, etc.) to protect and distribute both consumer and institutional products.

A significant amount of research is invested in the flexible packaging business; companies are constantly trying to find new and better ways to protect their products. Flexible packaging is used in a variety of industries, but it is of special interest in the food retail sector.

TCL invested close to $1.8 billion in acquisitions last year to bolster its packaging business. In March, TCL acquired flexible packaging supplier Multifilm Packaging. Multifilm specializes in high-end confectionery packaging — an area in which TCL had little presence.

TCL's most important acquisition, though, was completed in May. The company bought Coveris America — a top provider of flexible packaging in North America — for $1.72 billion. Coveris's operations within the flexible packaging sector are well diversified. The company manufactures plastic and paper products for a variety of uses.

TCL's 2018 financial results show some signs of growth and profitability in its packaging sector. This growth was almost entirely driven by the company's acquisitions, however, and the rest of TCL's earnings were not very impressive. TCL's packaging revenue soared by over 200% from 2017, but the company's total net earnings were virtually identical in both years.

TCL has been shedding some of its printing operations, which offset the revenue growth in its packaging business.

Is TCL a buy?

Many tout TCL's dividend history. The company's quarterly dividend payout has increased by more than 250% over the past 10 years. But dividend growth is only as good as the earnings and cash flows generated by the company which issues them. True, TCL's payout ratio is currently low (around 30%), but the company's cash flows provided by operations has been decreasing. Last year saw a drop of 4% in TCL's cash flow from operating activities.

TCL's stock has been trading around its 52-weeks low since late last year. Many investors and analysts think the company is currently undervalued. Thus, value investors may currently be interested in TCL, but purchasing shares of TCL assumes that the company's share value will increase (perhaps increase significantly) in the future. While the company's greater focus on its flexible packaging operation is a step in the right direction, I am not yet convinced TLC can deliver the kind of results that will lead to significant capital appreciation.

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