Higher Margins Keep Driving This Stock Higher

Description

This past year would have to be considered a success for shareholders of TFI International (TSX:TFII), the owner of Canpar, Quik X, Clarke Road Transport, and many other logistics-related transportation brands. That's because it delivered a total return of 10.1%, much better than the almost 9% loss for the **S&P/TSX Composite Index.**

The company got a lot right in 2018. As a result, analysts are coming out of the woodwork in support of TFII stock. One of the critical drivers for the analysts' enthusiasm is the company's margin growth.

It's a top pick

On January 22, Industrial Alliance Securities analyst Nav Malik released his three top picks of the stocks he covers. TFI was one of them.

"TFII is one of the largest and most broadly diversified trucking companies in North America. Margin improvement was the key driver of growth in 2018," Malik wrote in his research report. "In addition, TFII has been the most active consolidator in the Canadian trucking industry, and we believe acquisitions will remain a key component of growth going forward. We are forecasting operating income growth of 21 percent in 2019."

That's not too shabby.

Of course, analysts began warming to its stock this time last year, as profits began to widen in the company's fourth quarter of 2017. It's a big reason why I recommended the stock in February and kept recommending its shares at various times throughout 2018.

But even if analysts weren't upgrading its stock, I would have been recommending it. Here's what I said at the time.

"In fiscal 2017, TFI International increased free cash flow by 30.6% to $376.5 million — a record amount for the company and an indication that things are trucking along just fine, despite the problems in the U.S.," I wrote February 22. "Few CEOs impress me. Alain Bedard is an exception. With his leadership, shareholders should expect more good news in 2018."

Ditto for 2019

Not every analyst is as enthusiastic as Malik is.

However, out of 13 analysts covering TFII stock, ten have a "buy" rating on its stock, while three have a "hold" with no "underweight" or "sell" ratings amongst the 13. Regarding a 12-month target price, Malik's $60 projection (58% upside from current prices) is the high-end of estimates with $42 the low.

MoneySense magazine asked ten Canadian money managers their 50 top stocks for 2019.

Richard Stone, Founder and CIO of Stone Asset Management in Toronto, made TFII one of his five picks. Although the money manager noted that it had fallen by 17% since October 1 on concerns about the economy heading into 2019, he believes that growth in e-commerce will more than offset any weakness experienced in the months ahead.

When you look at TFI International's four different operating segments through the first three quarters of fiscal 2018 is how much more profitable they were over last year. All four increased their operating margins with its Truckload business, which accounts for 46% of its overall revenue, improving operating margins by 530 basis points to 9.4%. Overall, it increased them by 410 basis points to 9.4%.

The bottom line on TFII stock

As we close out the first month of the new year, TFI International is already up almost 9% on the year — 253 basis points higher than the index — with fourth-quarter results to be announced February 18 after the markets close.

Unless something substantial fell off one of its trucks, investors can expect more food news.

There's a lot to like about TFI International at the moment.

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