TFSA Investors Need to Know North America’s Fastest-Growing Fuel Company

Description

Since 2011, shareholders of **Parkland Fuel** (TSX:PKI) have profited handsomely with a 400% return. Over the same period, the TSX returned only 20%.

The company’s success is due to its relentless focus on both growing revenues *and* cash flow. In 2011, EBITDA was around $125 million. By 2018, EBITDA had reached $800 million. With a market cap of just $5.5 billion, Parkland trades at less than seven times trailing EBITDA, a bargain price compared to its proven growth ability.

For TFSA investors accruing tax-free capital gains and dividends, Parkland is the ideal stock pick.

A business model that only gets stronger

Parkland delivers fuels such as gasoline, diesel, and propane to motorists and businesses in both Canada and the United States. For the most part, the company makes sure petrol stations are stocked with fuel to sell to customers.

In 2011, the company delivered roughly five billion litres of fuel. That metric has grown every year since, rising to nearly 18 billion litres in 2018, nearly all of which was delivered within Canada.

Supplying petrol stations is a fantastic business if you have scale. Without size, it’s nearly impossible to compete. Not only must fuel distributors like Parkland have purchasing power to lower their input costs, but they also need a vast network of transportation infrastructure to meet customer demands.

The best part about Parkland’s business model is that it strengthens over time. Increased scale nearly always results in lower costs. For example, if Parkland is already servicing 20 stations in Edmonton, it costs the company very little to add an additional local customer to its route. For a competitor without scale in the area, it would be difficult to price lower than what Parkland could profitably offer.

Parkland’s management team aims to grow its organic business by 3-5% annually. Every year that goes by, Parkland’s costs go down while its capabilities to meet customer demands strengthen. Now that's a resilient business model. Better yet, Parkland is in a unique position to roll-up the entire industry, gaining more value from a competitor's assets than the competitor could generate as a standalone operation.

Accelerating growth with attractive acquisitions

Growth through acquisitions can be a tricky business, but with Parkland, it's one of the best ways to increase shareholder value. As mentioned, a company needs scale to win in this industry. With scale comes ever-growing competitive advantages.

Given this, smaller competitors typically can't achieve profit margins even close to Parkland. That means Parkland can buy these competitors at cheap prices, plug them into its network, and drive significant synergies. According to management, Parkland can achieve 20% cost savings simply by integrating a competitor with its existing scale.

In recent years, the company has made several large acquisitions, including assets from Ultramar, **Chevron**, and SOL. While it takes a few years to fully achieve management's stated synergies, the company anticipates achieving $1 billion in EBITDA by 2020 through rationalizing these buyouts alone. That means shares are currently trading at just 5.5 times next year's EBITDA.

In the meantime, investors will continue to collect the company's $0.0978 monthly dividend, which currently yields more than 3%. With a long runway of growth options, proven history of success, rock-bottom valuation, and reliable dividend income stream, Parkland Fuel is a TFSA investor's dream.

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Date
2025/08/25
Date Created
2019/02/07
Author
rvanzo