



Income Investors: Superior Plus Corp. (TSX:SPB) Is As Good As It Gets

Description

Are you looking for a big, reliable dividend to generate income over the next decade? Check out **Superior Plus Corp.** ([TSX:SPB](#)).

Since 1996, the company has paid more than \$2 billion in dividends, roughly equal to its entire market cap today. Today, the stock has a dividend yield of 6.2%, double the TSX average. Don't think the company has mortgaged the future for a high payout, as its debt to EBITDA is only around 3.0 times earnings and its payout ratio has consistently stayed between 40% and 60%.

In 2016, I [wrote](#) that Superior Plus was “as good as it gets” for high-yield investors. Since then, nothing has changed.

Here's why Superior Plus should be part of any income-generating portfolio.

2 complimentary businesses

Superior Plus is the leading distributor of propane in Canada, moving about 2.2 billion litres annually. This business segment also serves the retail market in the eastern U.S., as well as wholesale customers in California. Those sales amount to roughly 1.3 billion litres per year.

In total, Superior Plus' propane segment contributes about 70% of its EBITDA.

Combining its U.S. and Canadian businesses, Super Plus is the third largest propane distributor in North America — a huge advantage in an industry dominated by scale.

The most expensive part of distribution is entering a new market, as dedicated trucks need to serve an area filled with sporadically located customers. Once customer density is built, margins scale quickly as servicing a neighbour only requires a small amount of variable costs. The fixed cost of sending the truck out there in the first place has already been realized.

With more than one million propane customers in North America, Superior Plus has been able to

achieve margins that lead its industry. Plus, demand for propane is generally impacted more by weather than economic activity, creating a stable source of income throughout all market cycles to support the company's dividend.

Meanwhile, the other 30% of the company's EBITDA is derived from its specialty chemicals segment, which mostly sells sodium chlorate and sodium chlorite. These compounds are largely used for the bleaching textiles, pulp, and paper. They can also be used to disinfect municipal water treatment plants, among many other uses.

Superior Plus has strategically located its facilities close to rail transportation and major customers, providing cost advantages that can either boost margins or position the company competitively within its core markets. North America demand has remained very tight in recent years, with the two major producers operating at very high utilization rates, meaning that pricing remains attractive.

Earnings from this segment are similarly stable to the company's propane business. In 2016, EBITDA from this segment was around \$109 million. In 2017, it rose to \$126 million. Last year, segment EBITDA topped \$137 million.

Business as usual

Over the last 13 years, Superior Plus' stock has returned roughly 0%. Including dividends, however, shares have earned more than 7% annually, assuming the dividends were reinvested for additional stock.

While 7% returns may not seem that attractive, the next market downturn may change your mind. Superior Plus' businesses are stable, recession-resistant, and cash flow generating.

Investors are likely leaving shares behind to focus on higher-growth opportunities, but expect Superior Plus to continue business as usual, providing generous, reliable income along the way.

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