Retreat to Safety With the TFSA-Millionaire-Maker Stock You've Probably Never Heard Of

Description

Park Lawn (TSX:PLC) is the death care stock that needs to be on every Canadian growth investor's radar. The mid-cap gem is not only growing rapidly without needing to raise exorbitant amounts of debt, but the company also has the luxury of operating one of the most boring, predictable industries that also happens to be one of the most defensive.

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Take these traits for what you will, but I believe the defensive nature of the death care industry, when combined with the predictable growth trajectory should imply two layers of premium on the stock. At the time of writing, however, the stock trades at a relatively modest 23.5 times forward earnings, which I think is too darn low when you consider the magnitude of margin compression that could be on the horizon. Park Lawn continues to consolidate the fragmented North American death industry, and it's doing so extremely prudently.

Like most well-run growth firms operating through a growth-by-acquisition model, the company pursues M&A opportunities that have ample synergies to be unlocked through the expertise of management. Unlike most other inorganic growth companies, however, Park Lawn takes small nibbles and doesn't raise vast amounts of debt on opportunities that fall under the company's crosshairs.

A low-risk, high-reward bet

In Warren Buffett's most recent letter to **Berkshire Hathaway** shareholders, he highlighted the real dangers of firms that take on too much debt. Buffett acknowledged that financial leverage "juices [up] the returns for equity owners", but cautioned against heavily indebted firms that could be at risk of significant downside (or death) in a "usually win, occasionally die" type of scenario.

Indeed, the dangers of excessive financial leverage are discounted by the growth-savvy investors, but in the case of Park Lawn, you're getting huge growth minus the Russian Roulette type of scenario that comes with debt-funded M&A. When it comes to debt, I think Park Lawn could safely raise much more debt to "juice up" its ROEs for investors. How often have you heard of a growth stock that isn't taking on enough debt?

With a ridiculously low 0.16 debt-to-equity ratio, the company has a lot of room to roar should it start building credit gradually over time. For a mid-cap ($570 million market cap) firm like Park Lawn, debt is particularly dangerous, but seeing as Park Lawn has been able to sustain meaningful growth through M&A with minimal reliance on debt, I see a scenario where the company could really take-off as it becomes more comfortable with its synergy-driving procedures.

Foolish takeaway on Park Lawn

Park Lawn is a hell of a bet, and it's hiding in plain sight. Death happens, and although it's not something we want to think about, it's a very profitable business that's on the cusp of huge generational tailwinds. With value-creating consolidation thrown into the mix, you've got a low-risk, high-growth company that I think could turn into a major multi-bagger in as little as five years.

Stay hungry. Stay Foolish.

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