Intertape Polymer Group (TSX:ITP) Is the Best Turnaround Stock of 2019

Description

According to management, **Intertape Polymer Group** (TSX:ITP) produces “a variety of paper and film based pressure sensitive and water activated tapes, polyethylene and specialized polyolefin films, and complementary packaging systems for industrial and retail use.”

For the most part, it just makes tape.

While manufacturing tape for packaging doesn’t seem very lucrative, Intertape has found a way to profit big. Since 2011, shares are up by 1,800%. Still, there’s reason to believe the run will continue.

Here’s why Intertape continues to be the best turnaround stock of 2019.

A boring business made profitable

From 2009 through 2011, Intertape was on the verge of collapse. With a heavy debt load and money-losing businesses, bankruptcy was solidly on the table.

Since then, management has executed a complete turnaround, pushing the company to become North America’s second-largest tape manufacturer. Since 2015, EBITDA margins have been consistently positive, ranging from 13% to 15%.

Then, in both 2017 and 2018, management made another aggressive bet, spending $161 million to revamp and build seven facilities. It expects to generate 15% annual returns on this investment cycle. As capital expenditures return to their normal rate of around $50 million per year, free cash flow is ready to ramp hard.

In total, this management team knows what it’s doing, so when they reveal plans to grow even faster in the coming years, investors should take notice.

Management has aggressive goals

Over the next five to seven years, Intertape's management team aims to grow sales to US$1.5 billion and EBITDA to US$225 million. That would represent big upside compared to the stock's current valuation.

Today, the company has a market capitalization of roughly US$800 million. With an enterprise value (EV) of US$1.3 billion, shares trade at an EV-to-EBITDA ratio of just 10.3 times. That's assuming trailing EBITDA of around US$125 million.

If management hits its targets, how much upside is there?

While share dilution and further debt financing might sway the valuation a bit, we can get a reasonable range of the potential valuation using its current EV-to-EBITDA metrics. At 10 times EBITDA, the company's EV would be US$2.25 billion. Stripping out US$500 million in debt leaves equity holders with $1.75 billion in value, more than double the current market capitalization.

So, based on management's expectations, shares currently trade with 100% upside over the next five to seven years. Are these targets reasonable?

Stick with Intertape

While management's goals may end up being slightly too optimistic, they've earned the benefit of the doubt. Since 2011, they've turned a struggling business into a free cash flow machine.

In late 2019, the company should start generating plenty of cash as it wraps up its multi-year capital-expenditure program. Now with stable margins, growing volumes, and upgraded facilities, expect Intertape to focus on paying down debt in the coming years. By 2025, it's reasonable to expect a debt-free company, with positive free cash flow and a 4-5% dividend yield.

Even if 100% upside isn't realized by then, Intertape looks like a good bet to outpace the TSX average.

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Date
2025/07/04
Date Created
2019/03/17
Author
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