Make Money Like a Casino With This Growth Stock

Description

Bear markets, economic downturns, and difficult markets can make it difficult to make money as an individual investor. Stocks go up and down without warning, making it extremely difficult to make money over the long term, making investing seem more like gambling than anything else. In gambling, they say that it is only the house, the casino, that makes money over the long run. Fortunately, investing has its own house, and it's known as the stock exchange.

Canada's largest publicly listed stock exchange company is known as **TMX Group** (TSX:X). Probably the most well-known company in the group is the Toronto Stock Exchange itself, but the company is the parent to a number of other businesses as well. The Toronto Venture Exchange is host to many smaller companies that have not yet reached the minimum requirements to be listed on the larger TSX. TSX trust provides corporate trust services to companies.

TMX is divided up into a few business segments: Capital Formation (24% of revenues), Equities and Fixed Income Trading and Clearing (24% of revenues), Derivatives Trading and Clearing (16% of revenues), and Global Solutions, Insights, and Analytics (35% of revenues), as well as 1% of revenues coming from other sources. The asset mix is diversified, with each segment providing a roughly equal slice of total revenue to the business.

The company has been growing quite steadily, with 2018's Q4 results being quite impressive. Over the course of the year, revenue for TMX increased by 22% as compared to the fourth quarter of 2017, with 8% of that growth coming from organic sources. Cash flows from operating activities increased 15% over the same period. The only problem spot in the report was the diluted earnings per share, which were down 66%. However, after being adjusted for acquisition costs and non-cash income tax adjustments, diluted earnings per share were up 7% year over year.

TMX pays a healthy dividend with a yield of just under 3% at current market prices. The dividend was increased 7% in February, continuing a steady string of dividend increases.

There are risks to the investment, not the least of which is the potential for technological disruption. Online stock exchanges have begun to pop up, which might cut into some of TMX's business over time. But TMX has the benefit of being the biggest player in the Canadian stock exchange place, which gives it some clout that the other exchanges don't yet have. Its diversified business also has positioned the company to grow outside its traditional stock exchange business, adding growth avenues that the smaller, upstart exchanges do not have.

TMX also keeps a bit more debt on its balance sheet than I would usually like, maintaining a financial leverage ratio of around 4:1. That being said, the company tries to keep a current ratio of 1:1, so it is able to meet any immediate debt obligations due within one year's time easily. Its debt is also staggered over a number of years, with an average interest rate of around 3.6%. With the earliest long-term debt due around 2023, TMX should be able to meet its debt obligations easily over time.

Should you buy?

TMX is attractive in that it gives investors a way to make money from the market by joining forces with the house. The fees associated with financial markets come back to you in the form of TMX earnings. The income you receive from dividends is also growing at a steady clip. If you are comfortable with its debt and believe it will continue to maintain a market-leading position as the stock market's casino, TMX could be a good long-term hold for Canadian investors.

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