What a Great-Quality Stock to Invest in!

Description

Stocks are inherently volatile. However, you know you have invested in the right stocks if you are able to not look at the stock price changes of your portfolio holdings every day and still be comfortable. It would be better if you have pretty much forgotten about your stocks.

If you have purchased shares in great businesses like **CCL Industries** (TSX:CCL.B) when they're a good value, there is really nothing to worry about.

Awesome returns

CCL has created tremendous shareholder value in the long run. A $10,000 investment since 2007 has transformed to more than $115,000 for total returns of about 21.8% per year.

The company has improved its return on assets from about 2.5% in 2009 to roughly 7% over the trailing 12 months. In the same period, its return on equity has improved from 5.6% to about 18%. CCL's awesome returns were helped by EBITDA margin expansion from about 16.8% to 19.3% in the period.

The company's strong return on equity of largely 10-20% since 2011 has to do with its M&A strategy. Its most recent bolt-on acquisition was announced last Thursday. It's buying a company with annual sales of $1.3 million with an EBITDA margin of about 65% for about $3 million. Although the acquisition won't increase CCL's sales or earnings in any material way, it's the proven strategy that counts — buying quality businesses with high margins that strengthen CCL's leading position. This will be its eighth bolt-on acquisition since acquiring Avery in 2013.

Recent results

CCL reported its first-quarter results on May 15. Compared to the same quarter in the prior year, sales increased 8.6% to $1.3 billion, while net earnings increased 4.1% to $123.6 million. Diluted earnings per share rose 4.5% to $0.69. EBITDA climbed 8.8% to $271.3 million. The first-quarter EBITDA margin was a solid 20.3%.

Dividend

CCL has increased its dividend per share every year since 2002. Its three-, five-, and 10-year dividend-growth rates are 20.1%, 24.8%, and 16.6%, respectively. Compare them to its last dividend hike, which was 30% in the first quarter! Since its payout ratio is only estimated to be about 23% this year, investors can expect many years of dividend growth to come.

Valuation

Notably, it's unlikely that CCL's amazing returns of about 21.8% per year since 2007 will repeat over the next 12 years or so because the stock is trading at a much higher multiple today.

At the start of 2007, CCL traded at a price-to-earnings ratio of about 12.4, while today, it trades at a multiple of more than 22.

Foolish takeaway

CCL is a great business and a great dividend-growth stock. However, it's, at best, fairly valued today. Investors should aim to buy CCL on meaningful dips and in the meantime look elsewhere for better value.

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