Value Investors: It’s Time to Check Out This Contrarian Pick Yielding 6.7%

Description

As markets continue to experience volatility, your strategy should be simple. It’s time to put cash to work and pick up bargain stocks.

During a market sell-off, just about every stock gets battered. There are a select few that will manage to do a little better than the market, but these are the exception, not the norm.

Growth stocks will go from overvalued to just plain expensive, while some unloved value stocks will go from cheap to ridiculously inexpensive.

Let’s take a closer look at one of those insanely cheap value stocks, a company that has done a nice job despite being hit with significant investor doubt.

Keep on truckin’

Mullen Group Ltd. (TSX:MTL) has come a long way since 1949, when Ronald Mullen started out with a single truck and dreams of creating a big business.

After first listing on the **TSX** in 1993, Mullen has been a growth-by-acquisition story, consolidating Canada’s national patchwork of trucking operators. Since the beginning of 2017, the company has acquired 17 different trucking companies and made strategic investments in three more.

Revenue increased from $1.04 billion in 2016 to $1.26 billion in 2019. Analysts estimate revenue will hit $1.31 billion in 2019 and $1.38 billion in 2020.

The big thing impacting the company today is its exposure to the energy sector. Before 2014, a big part of Mullen’s business was delivering things to energy service companies; 60% of its revenue was from its oilfield services division in 2014, compared to just 31% in 2018.

The company has transformed itself over the last few years, staying true to its Western Canadian roots while moving away from the volatile energy sector. This is a smart long-term move.

Mullen lets each individual trucking company it acquires continue to manage itself, with only minimal interference from head office. I really like this strategy.

A local management team is far better suited to make operating decisions. After all, these folks know their market.

Ridiculously undervalued

Despite the company's steady profitability through uncertain times, investors still aren't happy about Mullen's oilfield exposure. Mullen shares are down more than 50% compared to highs set in early 2016.

This has created one heck of a buying opportunity for long-term investors. The stock is one of the cheapest on the entire **Toronto Stock Exchange** on a price-to-cash flow basis.

The company generated some $140 million in cash flow in 2018. It has a current market cap of $921 million. That gives us a price-to-cash flow ratio of under 7 times earnings.

The company is even cheap on a price-to-earnings ratio, with the stock trading at 14 times estimated 2019 earnings. Notably, a trucking company like Mullen will always have large depreciation and amortization costs, which will keep earnings somewhat depressed. In other words, cash flow is king here.

Finally, Mullen is also undervalued when taking a look at its owned real estate. The company has spent $550 million buying up mostly warehouse space across Canada over the last 25 years.

It currently has a market cap of $921 million. Remember, $550 million is the company's cost for its real estate. Its market value could easily surpass the stock's book value.

An investment in Mullen Group today is covered by the real estate. You get a profitable trucking company for free.

While investors wait for Mullen shares to return to former glory, they're also treated to one of the best dividends out there. Shares currently yield a robust 6.7%.

The bottom line

There's a great deal to like about Mullen Group today. The stock is seriously undervalued, and growth continues at a decent clip. Investors are also getting an impressive collection of industrial real estate as well.

The share price will eventually recover, leading to nice profits for investors who were brave enough to get in today.

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