



Investors: Why You Need to Invest in This Logistics Company

Description

Shares of Canada-based logistics and transportation company **TFI International Inc.** ([TSX:TFII](#)) are trading at \$40.55 at writing. The TFI stock is trading 17% below its 52-week high and has returned 47% in the last five years but has lost close to 16% in the last 12 months.

TFI provides transportation and logistics services in Canada, the United States, and Mexico. It has just under 400 terminals and provides services to retail, energy, and metals and mining industries. TFI has an employee base of 17,500 and about 8,500 drivers.

TFI valuation and revenue metrics

TFI reported sales of \$5.12 billion in 2018. Analysts estimate the company's revenue to rise by 2.6% to \$5.26 billion in 2019, 2.1% to \$5.37 billion in 2020 and 1.7% to \$5.46 billion in 2021.

TFI's earnings are expected to grow by 12.7% in 2019, 5.3% in 2020 and at an annual rate of 18.8% over the next five years. Comparatively, the TFI stock is trading at a forward price-to-earnings multiple of 9.7, suggesting that the stock is undervalued given its long-term earnings growth. Additionally, TFI also has a dividend yield of 2.3%.

Operating income rose 21% in the June quarter

While company sales rose 1.5% in the second quarter of 2019, TFI reported a record operating income of \$149.2 million. The company's operating income rose 21% year over year, driven by strong execution across the organization, increased quality of sales, an asset-light approach and cost efficiencies.

This helped operating margin rise by 190 basis points to 12.6%, while net income from continuing operations rose by an impressive 25% to \$100.2 million.

TFI is able to grow earnings at a far higher rate than revenue, indicating that the firm has high

operating leverage. While the company's operating margin is expected to rise from 8.4% in 2018 to 9.3% in 2021, the net margin is estimated to rise from 5.7% to 6.1% in the same period.

How is TFI creating value to shareholders?

We've seen that TFI's stock returns have been impacted by tepid performance in the last 12 months. The company aims to create shareholder value by identifying strategic acquisitions and successfully managing a network of wholly owned subsidiaries. TFI acquired six companies in the first two quarters of 2019.

Shareholders are not subject to cyclic volatility. While demand in the first quarter is generally weak, it remains stable for the rest of the months. The maintenance costs and fuel prices also tend to rise during peak winters, which is again during the first quarter.

TFI has a diversified customer base across various industries. No single customer accounts for more than 5% of sales. This diversity coupled with TFI's wide geographic scope and service offering will insulate the company against a downturn across a particular industry.

TFI has strategic partnerships with several transport companies enabling it to extend service offerings to customers across North America. In the second quarter, TFI returned \$85.1 million to shareholders. It paid \$20.3 million in dividends and \$64.8 million via share repurchases.

Analysts have a 12-month price target of \$52.93 for TFI, indicating an upside potential of 30.5% for investors.

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