



## The Top Services Stock to Make You Rich

### Description

The demand for services in our economy has exploded the last decade, as the companies that provide the services have worked to optimize their operations to bring down the costs.

This has helped to drive an increase in demand from customers who recognize the value of outsourcing some services, because of the expertise and relatively low cost that comes with it.

It becomes even more clear when looking at large government-owned business or massive corporations with enough work to scale the operations, making it extremely cheap.

One of those companies that has been capitalizing on this trend is **K-Bro Linen** ([TSX:KBL](#)).

K-Bro serves the healthcare and hospitality industry, taking care of linen and laundry services. It has two divisions, one in Canada and the other in the U.K. Currently, the Canadian segment does roughly three-quarters of the revenue.

The company has had strong operating results as of late. For the second quarter, sales came in at roughly \$64 million, a more than 5% increase from the prior year. Meanwhile, earnings before interest, taxes, depreciation, and amortization (EBITDA) came in at \$12.7 million — a nearly 50% jump from the same quarter in 2018.

The jump in EBITDA is a direct result of the company's increased EBITDA margin for the quarter, which improved 600 basis points to nearly 20%.

Its [dividend](#) for the quarter was \$0.30 per share on distributable cash of more than \$0.77 per share, giving it a payout ratio of just 39%.

Its redevelopment of key facilities is helping to improve capacity as well as efficiency, which should give it more of a boost to its bottom line. It has also upgraded a lot of its important equipment to aid in the increased efficiency of the newly renovated facilities.

The newly developed facilities are expected to bring significant incremental revenue and have already

attracted new important healthcare customers.

K-Bro should also have plenty of growth opportunities with its acquisition of the private Scottish laundry and linen services company, which will help grow its U.K. segment.

Its revenue is fairly diversified with 41% coming from hospitality and the other 59% coming from health care.

The revenue is also stable, with long-term contracts locking in steady revenue for years. 54% of its Canada-based revenue is under contract past 2023. Traditionally, healthcare contracts last longer than hospitality ones, which is a positive for K-Bro. In addition, it has an extremely high contract-retention rate, consistently between 98% and 100%.

K-Bro has seen an increase to its business the last few years, as more companies move to outsourcing their laundry and linen services. The move to outsource the work comes as it's more cost efficient for those companies because the cleaning companies have such strong operations and scale.

There is a tonne of growth potential for a stock like K-Bro, from organic growth as a result of more companies outsourcing their work as well as acquisition opportunities.

It continues to offer new services to its customers that are integrated with many of its other services, which helps to drive efficiencies for its customers and sales for itself. This is another reason why many companies are shifting to outsourcing of their linen and laundry services.

At the moment, much of its assets are not operating at full utilization, showing the natural ability and capacity for K-Bro to increase its production when the demand is present.

K-Bro's position in each of its main markets is one of strength, and in cities like Vancouver, Calgary, Edmonton, and Regina, it has more than 50% of the market share.

Its long-term debt of roughly \$70 million at the end of 2018 gives it a debt/EBITDA ratio of just 2.3 times, which is very stable. In addition, its sustainable dividend, which we already touched on, yields roughly 3.3% today.

K-Bro continues to position itself well and allocate capital prudently. It is increasing its efficiency to decrease costs and drive sales and should benefit from increased outsourcing in the future, giving it incredible growth potential.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. TSX:KBL (K-Bro Linen Inc.)

## **PARTNER-FEEDS**

1. Business Insider

2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

### Category

1. Dividend Stocks
2. Investing

### Date

2025/07/17

### Date Created

2019/10/02

### Author

danieldacosta

default watermark

default watermark