Long-Term Investors: The Best Growth Stock to Buy Ahead of 2020

Description

The HR industry continues to expand as more companies are outsourcing a number of services to top-quality providers. The industry is being helped even further through innovation and the number of possibilities being created by the digitization of many services.

This has led to consolidation in the sector and a number of opportunities for investors who act prudently.

One company that has been taking full advantage, growing its business and making a number of acquisitions to strengthen itself within the industry is **Morneau Shepell Inc** (TSX:MSI).

Morneau Shepell

Morneau Shepell is an HR company that's been utilizing digital and cloud technology to improve its services and customer reach.

It continues to add more services, integrating its business model so that it can offer its clients the total package. Morneau Shepell covers the mental, physical, social and financial well-being of its client's employees.

The company primarily operates in Canada with 73% of the revenue there, 23% in the U.S, and the remaining 5% comes from international

Its segments are diversified fairly evenly, with 43% coming from the well-being segment, 30% from pension and benefit outsourcing, 13% health and productivity solutions and the last 14% from retirement solutions.

Morneau Shepell is a great business for a number of reasons, but one of the top reasons is because it has huge recurring revenue. Since 2011, it's lost at least 95% of revenue that's recurring from the prior year. In addition, it's also nearly doubled its revenue from 2011 to 2018.

For the second quarter, its revenue grew more than 23% from the same quarter a year ago, while adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) grew 34.6%.

Its growth came from organic growth as well as the integration of its recent acquisition, LifeWorks. The acquisition helped Morneau Shepell increase its revenue and operating cash flow, but reported a net loss due to accounting adjustments.

This isn't reflective of the company's current standing, however, and following the full integration of LifeWorks, it should get back to normal results.

It has long-term debt of roughly $410 million, giving it a debt to trailing 12-month adjusted EBITDA of just 2.55 times.

It pays a monthly dividend that yields roughly 2.4% with a payout ratio of just 54%. The company considers how much cash the business is generating when deciding on the amount to pay out in dividends, rather than the profit of the company.

It continues to have strong and consistent margins generating massive cash flows, which come on the back of its large portion of recurring revenue.

Coupled with a history of strategic acquisitions that have worked well and an industry that is growing its demand every year, that makes Morneau Shepell one of the best opportunities of the next decade.

Bottom line

Morneau Shepell is one of the best growth opportunities in Canada. The shift to outsource more services coupled with MSI's increased services makes it an ideal company going forward.

In addition, the company has a strong competitive advantage and little competition, allowing it to expand its business further through acquisition when it finds a company that fits its operations.

Investors are advised to consider MSI now while it's still cheap — and capture this incredible opportunity while it lasts.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/29
Date Created
2019/10/07
Author
danieldacosta