Discovering a Gem: High Barriers to Entry Will Take This Dividend Stock Higher

Description

High barriers to entry, little to no competition, a strong balance sheet, and strong cash flows — these are all very attractive qualities to look for in a company. What if I was to tell you that I found these qualities and more in **Westshore Terminals Investment** (TSX:WTE), owner of the largest coal loading and storage facility on the west coast of North and South America. In short, Westshore Terminals Investment owns Port Metro Vancouver's only dedicated coal terminal, the busiest coal export terminal in all of North America.

What about the environment?

To be sure, coal is on the way out. As one of the most environmentally damaging sources of energy, its days are certainly numbered. But this transition takes time. This source of energy was the most important fuel of the Industrial Revolution, and transitioning to cleaner sources of fuel will not happen overnight.

In the meantime, we have a great business to consider

While the trajectory for coal is clearly down, as the world is increasingly turning to cleaner sources of energy, the coal business continues to be a profitable one. Globally, approximately 70% of steel production relies on burning coal, and many places in the world still rely on it for power generation. Westshore Terminals is an example of the profitability of this business.

High barriers to entry and limited competition

Given the many regulatory and environmental hurdles that exist in building new coal terminals, and given the fact that coal is being phased out, with many countries turning to cleaner energy sources, we can see that the cost of building a new facility is not worth it. This protects Westshore's advantage.

Customers such as **Teck Resources** do not have options when it comes to coal facilities. Westshore has the facility that is needed and with no other facilities coming on-stream in the dying business of coal, Westshore is in the driver's seat. As a result, Westshore customer base is highly captive, period.

Strong cash flows and balance sheet

In 2018, Westshore generated fee cash flow of $113 million, 36% higher than the prior year, reflecting better pricing, higher shipments, and higher throughput. This trend is expected to continue in the next couple of years, and as a result free cash flows are expected to climb higher still in 2019 and 2020.

Westshore's healthy balance sheet, its dividend yield of 3%, its payout ratio of only 30%, along with its accelerating cash flows place the stock in an attractive category for dividend investors looking for some stable and secure income.

Foolish bottom line

Westshore Terminals is not a long-term investment. While its business is doing really well today, it is a business that does not have a good future. The world has awoken to the call of the environment, and the world has started to act. Westshore stock, however, has some clear merits and should do well over the shorter term, as the company continues to benefit from its top position in its industry which has resulted in a captive customer base, limited competition, and strong cash flows.

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