



2 Services Stocks Set for Massive Growth in 2020

Description

One of the main trends in the Canadian economy the last quarter-century has been the explosive popularity of business operating in the services industry.

From 2004 to 2013, the services industry grew from 65% of Canada's gross domestic product (GDP) to 69% of GDP. Today, it stands closer to 78% of GDP.

The number of services that makes up our GDP has nearly doubled since 2001, when GDP from the industry amounted to just over \$700 billion; today, GDP from the services industry is closer to \$1.35 billion.

The growth in the sector has led to a number of high-quality investments becoming available, some of which are lesser known to the greater investment community.

Two of those companies that should only see an increase in demand for their services in the future are **K-Bro Linen** ([TSX:KBL](#)) and **Bridgemarq Real Estate Services** ([TSX:BRE](#)).

K-Bro Linen

K-Bro is the largest provider of laundry and linen services in Canada as well as one of the largest operators in the United Kingdom. In total, the company has 16 locations that span Canada and the U.K., which the company uses to grow its market share.

In Canada the market for laundry and linen services is roughly \$600 million annually, and K-Bro has nearly 30% of the market. With a third of the market being serviced by companies' own in-house brands, that only leaves 40% of the market serviced by private companies competing with K-Bro.

The laundry and linen service is one that can be improved greatly through scale, so as K-Bro becomes larger, look for it to capture more market share, as it can offer its services at a lower price and extend its reach.

The company serves the healthcare industry, the hotel and hospitality industry, as well as a few other commercial sectors; with services that are high quality, economical for its clients, and environmentally conscious.

By serving more than one industry, it gives the company diversity in its operations and helps to stabilize some of the revenues it receives. In fact, 73% of the revenue the company receives in Canada is from the healthcare sector, which is highly defensive.

It also locks in long-term contracts to give itself stability and predictability in its cash flows. More than half of its revenue in Canada comes from contracts that extend past 2023.

Its revenue has increased dramatically the last five years, as it grows organically as well as through acquisitions. It continues to grow its distributable cash flow, which helps it to increase the sustainability and eventually [grow its dividend](#).

The dividend yields a little over 3% today, as the stock has been on a run so far this year, up nearly 17% year to date.

Bridgemark

Bridgemark Real Estate Services is the company that owns the Royal LePage brand. It sets up long-term franchise agreements with fixed fees to give itself stable and predictable cash flows.

The cash flows need to be as stable as possible, because Bridgemark's goal is to pay out a substantial portion of the funds it generates each year in the form of a dividend to shareholders.

Since it sets up these long-term contracts with fixed fees, the majority of its revenue doesn't fluctuate all that much; however, due to accounting standards, the company's net earnings tend to fluctuate a lot more, since it has to mark its derivatives and interest rate swaps at current market rates each time it reports earnings.

This can paint a picture of a company struggling for profitability, when, in reality, its business has been growing steadily.

The number one profit driver for Bridgemark is the number of realtors it has in its organization, and the company has nearly doubled its agents since inception and increased them by 14% since 2015.

Its dividend today yields a whopping 9.1%, and given the nature of the real estate business and the boom the industry has seen the last few years, it doesn't look like Bridgemark's growth is about to slow down.

Bottom line

The economy continues to evolve into one where services are not only necessary, but outsourcing them can be more cost and time efficient for both companies and consumers, which is why these two stocks will be such great long-term investments.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BRE (Bridgemark Real Estate Services Inc.)
2. TSX:KBL (K-Bro Linen Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
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