Why I'm Buying This Oversold Stock for my RRSP

Description

Currently trading at all-time highs, the TSX Index has not given us many opportunities to snatch up quality oversold stocks. There just haven't been that many. Today, however, I found one that I have been monitoring for some time. It fits nicely into my RRSP, as it has demonstrated good capital stewardship, solid shareholder returns, and sound operational know-how and strategic goals. All qualities that will drive this oversold stock to new heights in the long term, and in an RRSP, these returns will be tax-sheltered, making them even more valuable.

RRSP investors: boring can be good

Those of us who have heard of **CCL Industries Inc**. (TSX:CCL.B) think that it seems like a boring company involved in a pretty boring industry. It does not get much attention as it is not glamorous, exciting, or life-changing. It is known as a boring company that is involved in labels and packaging for a variety of sectors, such as the consumer, health care, electronic device, and automotive sectors. Customers are often large global customers, including governments.

But if we can move past this boring "label", we can see some very exciting stuff. The company continues to pursue high-growth opportunities in new value areas like "intelligent" packing, like radio-frequency identification labels (RFID), which use electromagnetic fields to transfer data and can store information. Labels featuring time/temperature, as well as track and trace, anti-counterfeiting, and tamper evident features are growth areas.

And today we can get exposure to all of this at a 16% discount relative to the stock's highs of this summer. Here's why I'm buying this oversold stock for my RRSP.

Explosive growth

There is no doubt that CCL Industries is seeing a slower growth environment than they used to. But it is this short-term hiccup that has provided investors with the opportunity to buy this quality stock today.

This $10 billion label and packaging company has grown consistently and profitably over the last 10 years, creating shareholder wealth through both capital appreciation and dividend payments. In fact, the company has grown from revenue of $1.2 billion in 2009 to revenue of $5.2 billion in 2018, for a compound annual growth rate of 17.7%. And the corresponding increase in free cash flow has been even more impressive. In 2009, the company generated $52.3 million in free cash flow and in 2018, it generated $420 million for a compound annual growth rate of 26%.

So yes, this year has seen slower growth, but I view this as a temporary setback. CCL continues to dominate in the labels and packaging industry, and it continues to benefit from its defensive positioning in the consumer and health care sectors. And offsetting the slowdown in growth have been cost-cutting and efficiency improvements, which are taking margins higher. The bottom line is that earnings are growing at a healthy pace, as are cash flows. Year-to-date earnings per share is 13% higher than last year, and cash flow from operations totalled just over $480 million.

Foolish bottom line

CCL Industries stock is a defensive stock that is a great candidate for any RRSP, which is why I plan to buy it, in what I believe will prove to be great timing as the company is struggling with weaker-than expected growth in the short term, while maintaining its strong growth outlook for the long term.

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