1 Canadian Stock I Would Watch Very Closely in 2020

Description

Huge moat? Check. A stable business? Check. Predictable cash flows? Check? Operational efficiencies? Check. **CCL Industries** (TSX:CCL.B) ticks all the boxes in Warren Buffett's checklist of a stock to buy and hold forever.

CCL is the world's largest label maker and also manufactures and sells packaging and packaging products.

Its subsidiary, Checkpoint, is a leading developer of RF and RFID based technology systems for loss prevention and inventory management applications, including labelling and tagging solutions, for the retail and apparel industries worldwide

The company keeps expanding its business and manages to keep competitors out by simply buying out its competitors. To give some context, CCL has acquired 11 companies since January 1, 2018. It also helps that labelling is not the most exciting business in the world and there aren't a lot of players looking at this industry.

Strong quarterly results

Sales for the third quarter of 2019 increased by 1.5% to $1.35 billion, compared to $1.33 billion for the third quarter of 2018. Net earnings were $127.7 million for the third quarter of 2019 compared to $112.7 million in the prior-year period.

For the nine-month period ended September 30, 2019, sales, operating income and net earnings improved 5.6%, 4.6% and 5.7% to $4 billion, $613.3 million and $372.6 million, respectively, compared to the same nine-month period in 2018.

Free cash flow from operations came in at $201.4 million. The 2019 nine-month period included results from the eleven acquisitions that have delivered acquisition-related sales growth of 3.5% in this time frame.

The stock sits at an interesting crossroads. On the one hand, CCL is the undisputed leader in its industry. On the other hand, the industry it operates in is cyclical.

The company stock will fall during a recession. Should you wait for the recession to hit? What if the recession doesn't come upon Canada? Do you risk losing out on the uptick on the stock?

The stock is down 17% from its 52-week high. The last four quarters have seen the company beat earnings estimates twice and miss the estimates twice.

CCL has increased its revenue by almost 75% from 2015 to 2018, clocking in revenues of $5.3 billion last year. 2019 should see CCL break that figure.

The stock is trading at a forward price-to-earnings multiple of 19. Comparatively, its earnings are expected by analysts to rise by 1.8% in 2019 and 7.2% in 2020. This growth is far from inspiring, even after accounting for its dividend yield of 1.2%.

Nine analysts tracking CCL have given it an average target price of $66.5, an upside of 16% from current levels, which essentially means the company will go back near its 52-week high.

If a recession does hit, you can expect the stock to slide further. But that is exactly the right time to stock up on the label-maker.

A prudent investor would do well to keep an eye on the stock for another quarter and then make an informed decision on this equity investment.

If a recession is a surety, wait for the stock to drop and then pick it up. If recession fears are unfounded, one should add this stock to their portfolio.

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Author
araghunath