Millennials: This Small-Cap Stock Can Gain 25% in 2020

Description

With all the talk of a recession and slowdown doing the rounds, investors need to look at businesses that are leaders in their segments. If you can identify companies that are not in the limelight because their businesses are considered boring, it's a bonus, because the upside could be higher.

We told you why we think **Sleep Country** is a good bet earlier this month, and now it's time to look at another market leader in its segment, which is **K-Bro Linen** (TSX:KBL).

With over 30 years of experience in the hospitality industry, K-Bro is Canada's largest provider of laundry and linen services and serves the country's finest hotels as well as the healthcare and other commercial sectors. The company is also well entrenched in the U.K.

The company reported its third-quarter results for 2019 in November, and the figures were in line with estimates. Consolidated revenue for the third quarter increased by 6% compared to the third quarter last year and 5.2% on a year-to-date basis. This was a result of the Linitek acquisition which closed in October 2018. The hospitality segment contributed $33.1 million, while the healthcare business accounted for $34.7 million in Q3.

Net earnings in the third quarter of 2019 increased by $2.8 million to $4.7 million compared to $1.9 million in the same comparative period of 2018.

A key point to note is that healthcare revenue grew by 4% compared to the same period in 2018. Healthcare is a defensive sector, and growth in that sector is good, because it means K-Bro is assured of income in that space. Revenue from hospitality and hotels will most likely start tapering off in the fourth quarter of 2019 and in the first quarter of 2020.

Focus on acquisitions

K-Bro is in a business where scale matters, and acquisitions are a simple way to acquire scale. K-Bro's acquisitions of Fishers in Scotland in 2017 and Linitek in Alberta in 2018 have both added to the top and bottom lines for the company. The company's revenues have gone up from $144.5 million in 2015 to almost $240 million in 2018. Analysts expect sales to touch $263 million by 2021.

The company projects a capex of $5 million for 2020, which means the company will have a lot of free cash flow. Linda Jane McCurdy, president, CEO, & director at K-Bro is clear about what that cash will be used for. K-Bro management wants to focus on inorganic growth via acquisitions, after which it will look to increase shareholder value via dividends and share buybacks.

Analysts tracking the stock have given an average target price of $47.43 for K-Bro. That's upside of over 13% from its current price of $41.64. The bullish target estimate stands at $52, which is upside of 25%.

A forward dividend payout of 2.9% doesn't hurt investors either. The company has paid out a dividend for over 10 years, and the CAGR on dividend growth in the last decade has been 3.7%. Don't expect this to change drastically, as K-Bro is clear about where cash is going to be deployed.

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