



TFSA Investors: 1 Contrarian TSX Buy for the Value Investor

Description

Coronavirus fears are widespread, oil has tanked, and global consumer demand is falling. This triple whammy has hit stock markets across the world. It looks like nothing is going right.

What should the prudent investor do in such a situation? They should look within. No, I am not talking about going zen. Instead, investors need a look at companies within their geographic zone that are going to continue business as usual.

Superior Plus ([TSX:SPB](#)) is an energy utility company that deals in propane distribution and specialty chemicals. The stock has taken a beating since the first week of February, and the current crisis isn't helping either. But Superior runs a good business with sound fundamentals, and this should help the stock bounce back quickly once the market stabilizes.

The company reported strong numbers for the fourth quarter and full year of 2019 on February 20. In 2019, its U.S. propane business achieved record EBITDA from operations of \$209 million, surpassing its Canadian propane business EBITDA from operations for the first time. The company is now bigger in the U.S than in its home country.

Canadian propane distribution EBITDA from operations for 2019 was \$200.8 million — \$38.3 million higher than 2018. U.S. propane EBITDA from operations for 2019 was \$209.4 million — \$106.7 million higher than 2018.

Canadian propane distribution EBITDA from operations for 2020 is anticipated to be lower than 2019 primarily due to an expected decrease in average margins and sales volumes. Average margins are expected to decrease, as wholesale propane market fundamentals are not expected to be as strong as they were in 2019.

Sales volumes are expected to decrease primarily due to competitive pressures in Western Canada. However, U.S. propane EBITDA from operations for 2020 is anticipated to be higher than in 2019.

In the fourth quarter of 2019, Superior closed on three different retail propane acquisitions with operations in North Carolina, New Brunswick, Delaware, and Maryland. Following year-end, the

company acquired assets of a propane distributor in southern California, which was its second retail propane acquisition in that space. From April 2019 to January 2020, Superior has made six retail propane distribution acquisitions for \$97.7 million.

What next for Superior investors?

Superior expects its U.S. business to boost growth in 2020 via acquisitions and organic growth opportunities thanks to the fragmented market. Its Canadian propane business is also expected to grow organically in Central and Eastern Canada, but it expects headwinds to continue in Western Canada.

The company's adjusted EBITDA guidance for 2020 is in a range of \$475 million to \$515 million, which implies a midpoint of \$495 million. The midpoint indicates a 6% decline to its 2019 results. This is because the company expects weaker alkali markets in 2020. In addition, strong wholesale propane fundamentals in 2019 aren't expected to continue in 2020.

Fellow Fool Ambrose O'Callaghan [wrote in mid-February](#) that the stock is trading below its fair value. Since then, the numbers have dipped further thanks to worsening global cues. Superior stock is currently trading at \$7.25, which is 47% below its 52-week high.

The recent sell-off has increased the company's forward dividend yield to 8.2%, and with a forward price-to-earnings multiple of nine, Superior Plus looks like a good buy for income and value investors.

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1. TSX:SPB (Superior Plus Corp.)

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