1 TSX Stock Is Well Poised to Move Higher in 2020

Description

"We're not going to lose money in Q2, that's for sure."

When the president and CEO of a company says these words in one of the worst pandemics in modern times, you have to marvel at his confidence. Of course, you would be forgiven for thinking this to be all bluster and bluff. However, since this statement was made by Alain Bedard, president and CEO of **TFI International** (TSX:TFII), one of North America's largest trucking and logistics players, you dig a little deeper into the context.

Bedard was addressing an analyst call after the company announced its results for the first quarter of 2020. Total revenue was up 1% compared to the prior year's first quarter at $1.2 billion. Operating income increased 13% to $118 million. The company also generated net cash from operating activity of $192 million up a very robust 19% when compared to the year-ago figure.

Does this mean that TFI has not been affected by the pandemic? TFI is closely linked to the broader economy, and if the economy weakens, so does its numbers. Package and courier (P&C), which is typically TFI's highest-margin business, has felt the largest impact from COVID-19 with B2B activity slowing significantly. This segment represents 13% of total revenue and saw a revenue decline of 4% year over year in the March quarter.

Strong balance sheet

Operating income was $16 million compared to $21 million in the corresponding year. For P&C, TFI's revenue was down 28% versus the prior year during the last two weeks of March and fell 30% during the first two weeks of April.

Trucking, TFI's largest segment representing 48% of total segment revenue, saw revenue growth of 1% year over year in the March quarter. For truckload, the company's revenue fell 4% versus the prior year during the last two weeks of March. Revenue in this segment declined 20% during the first two weeks of April, with both driver and specialized operations impacted. Logistics, which is the company's second-largest segment at 24% of total revenue, saw revenue grow 20% year over year in the March quarter.

TFI’s balance sheet currently reflects the lowest leverage the company has in many years. It ended the March quarter with about $130 million in cash and equivalents and $830 million still available on a revolving credit facility with no debt maturities until June 2021.

These are positive numbers when you compare the data to the 2008 financial crisis. TFI’s revenue and EBITDA numbers had dropped by 20%, and the balance sheet was a lot weaker then.

However, there is a diamond in the rough at TFI that could be a booster for the company. Consumers have been increasingly moving towards e-commerce, and the virus is going to be a catalyst. TFI is in a unique position to take advantage of this thanks to their next-day solution with the Canpar, Loomis operations.

The verdict

TFII stock is trading at a cheap valuation given its 21% decline since February. It has a forward price-to-earnings multiple of 13.4 and a forward price-to-sales ratio of 0.6. Analysts tracking the stock have a 12-month average target price of $48, which is 27% above the current trading price.

TFI will hold out the storm that has currently hit markets and recoup its lost business slowly. When the markets start to turn, this stock should deliver significant upside. It’s a good buy in the current scenario.

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