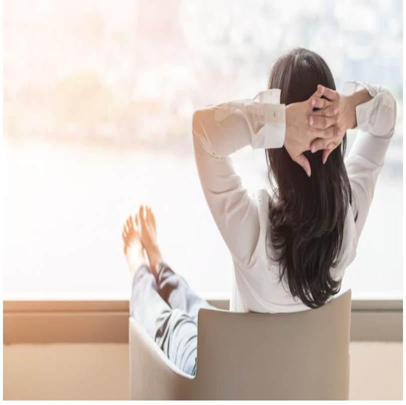

Contrarian Investors: Time to Bet on This Beaten-Down TSX Stock?

Description

Thanks to the pandemic and the ensuing lockdown, many people share videos on social media showing how animals and birds are moving into cities with the caption: Nature is healing. **The Mullen Group** (TSX:MTL) released an interim report for the period ended May 31, 2020. According to the report, the economy has begun to heal from the lockdown.

Even though Mullen's trucking and logistics service was deemed essential by the government and ran throughout the lockdown, demand for its services slowed down significantly since mid-March.

Business recovery might drive the TSX stock higher

However, the company says green shoots are visible now and that's a good thing. "Clearly COVID-19 will be with us for a while however, the economy is in the early stages of 'opening up'. Consumers are once again active, plants and factories are reopening which points to a recovery in the demand for logistics and trucking services," said Chairman and Chief Executive Officer Murray K. Mullen,

The less-than-truckloads segment based on consumer "wants" was down around 15% during the lockdown, albeit it is picking up. Mullen expects this segment to recover the quickest.

When Mullen reported its results for the first quarter of 2020, it had furloughed and temporarily laid off 1,000 members of its workforce. The company has now recalled about 20% of its workforce from the temporary layoffs. Its current cash position is $115 million, up from $84.7 million on March 31, 2020.

Mullen also confirmed it will continue its stock buyback. The company has a credit facility of $150 million that hasn't been touched.

The numbers game

The company says consolidated revenues for April and May are trending down 22% compared to the same period in 2019. Second-quarter revenues are estimated to be in the range of $240 million to

$260 million.

Earnings from operations are expected to be around $40 million for the quarter, and the wage subsidy programs announced by the government should generate an additional $10 million for the company.

This could mean Mullen's profitability for the second quarter of 2020 should be in the same range as 2019 — around $51 million. Not bad for a company undergoing one of the worst periods in economic history.

What's next for Mullen Group investors?

Canada imports a lot of value-added products, capital goods and equipment from the U.S., which slowed down significantly thanks to lower cross-border traffic. While the warehouses and logistics are reopening but are not close to pre-COVID levels. However, Mullen sees this segment strengthening as the year goes on.

One area where Mullen will face headwinds is in its Specialized and Industrial Services side. This was the hardest hit segment for the company, with revenues dropping by 32% in April and May. The company doesn't expect normal activity to return until the end of the year.

Mullen has also increased its allowance for doubtful accounts by $1.2 million to $9 million as it provides a net for clients who might go bankrupt.

Mullen had also suspended dividends when the pandemic hit and the company will take a relook at these numbers at the end of Q2. The company is looking at several M&A deals that have risen up due to the pandemic and slowdown. Although Mullen might not acquire companies this year, it will look at adding names to its roster next year.

The stock has fallen over 67% in the last five years and burnt significant investor wealth. However, Mullen's cash balance, recovering business, and a conservative approach make the stock a good buy this summer.

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