



TFSA Investors: Buy This Value Stock in February 2021

Description

Chemtrade Logistics ([TSX:CHE.UN](#)) provides [industrial chemicals](#) and services to customers in North America and around the world. The company provides products and services to the gasoline, motor oil, fine paper, metals and water treatment industries, and to other major industrial and consumer markets.

The company has a price-to-book ratio of 0.94, dividend yield of 8.82%, and market capitalization of \$637 million. Debt is high at Chemtrade, as evidenced by a debt-to-equity ratio of 2.14. The company has depressed performance metrics with an operating margin of 0.91% and a return on equity of (20.9)%.

Chemtrade was formed in 2001 to [operate a chemical business](#), and to grow through acquisition. Since that time, the company has successfully integrated seven material strategic acquisitions. Chemtrade has also added complementary products and services, diversified earnings and end markets and extended geographical reach.

The company's sulphur products and performance chemicals segment manufactures and markets sulphur-based products and services to the North American market. This segment is one of North America's largest suppliers of industrial sulphuric acid and spent acid-processing services. Further, this division is the leading producer of ultrapure sulphuric acid to the electronics semiconductor manufacturing sector.

Chemtrade's water solutions and specialty chemicals segment manufactures and markets water treatment chemicals and specialty chemicals. This division is one of North America's largest suppliers of inorganic coagulants for water treatment and a leading supplier of potassium chloride and sodium nitrite.

The company's electrochemicals division manufactures and markets sodium chlorate and chlor alkali products. This division is one of Canada's largest suppliers of sodium chlorate and a leading regional supplier of chlor-alkali products. This segment has significant emerging market exposure as a supplier of sodium chlorate and chlor alkali products to one of Brazil's largest pulp and paper mills.

Chemtrade's scale and diversity has given it purchasing power. The company's diversity of earnings allows it to spread the risks associated with earnings sources, and increase the number of potential synergistic additional products. Each of the company's three business segments produced approximately a third of Chemtrade's revenue in 2020.

Chemtrade grows mainly through acquisitions, and hence, the ability to successfully integrate new businesses is fundamental to the company's success. The company acquire assets and products that require additional capital or that otherwise would benefit from Chemtrade's operating and capital expertise.

A significant portion of Chemtrade's business is not fully exposed to commodity fluctuations. The company structures business segments to deliver stable cash flows to minimize the financial impact of the fluctuations that are common in industrial chemical businesses. Chemtrade accomplishes this by generating a bulk of earnings under fee-based contracts with no commodity risk and by acquiring businesses with the ability to mitigate commodity risks either contractually or through industry structure.

Chemtrade's businesses offer basic but essential chemicals to large industrial segments, such as gasoline refining, municipal water treatment, pulp and paper, and many others. The company uses lean manufacturing and six sigma processes along with competitive benchmarking to ensure industry-leading processes are maintained. Chemtrade stock could significantly appreciate in the coming months.

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