Canada’s Top Growth Company Could Rise Significantly

Description

In fiscal 2020, **CCL Industries** (TSX:CCL.B) appears to have had a roller-coaster year. First-quarter results were essentially flat, second-quarter sales fell 10%, and earnings fell 14%, followed by a rebound, a record third quarter, and a very strong fourth quarter. Overall, the company’s fiscal 2020 sales ended down only 1.5% to just under $5.25 billion.

Benefitting from foreign exchange translation and bolt-on acquisitions

With so many workplace and non-essential retail closures, CCL’s Avery and Checkpoint were the segments most affected by the crisis, with sales declining by 14.2% and 12.2%, respectively. However, CCL’s segment sales grew 1.7%, largely organically, while Innovia increased 10.4%, all by acquisition. The company appears to have benefited modestly from foreign exchange translation and the positive impact of bolt-on acquisitions.

Resolution of long-running legacy legal matter at CCL Secure

Adjusted net earnings increased more than $50 million to $551 million, up 10.8%, while adjusted basic earnings per Class B share improved from $2.79 in 2019 to $3.08 in fiscal 2020. CCL’s foreign currency translation effects were nominal, and restructuring charges were $27.6 million, including an additional $8.6 million expense to conclude a long-running legacy legal matter at CCL Secure.

Reining in capital spending and working capital

The balance largely related to restructuring investments across the company appears to have been utilized to match operational costs to pandemic-related demand levels. CCL also appears to have reined in capital spending and tightly managed working capital, which drove free cash flow to a record $616 million, up $172 million on a year-to-year basis. Overall, CCL segment’s 2020 sales increased

1.1% organically to $3.4 billion — the same growth rate as 2019 compared to 4.8% in 2018.

Double-digit gains in Latin America

Geographically, CCL has been delivering modest progress in North America and Asia and double-digit gains in Latin America, which was moderated heavily by currency devaluations. CCL's Europe sales has been down slightly, and more so in Australia and South Africa. In the most recent quarter, CCL's operating income increased 11.8% while adjusted earnings improved 9.6% to $784 million — a margin of 23.4%, up 170 basis points on a year-to-year basis.

Well positioned to pounce on business development and capital-allocation opportunities

Overall, COVID-19 seems to have tested the resilience of CCL, proving again the benefit of portfolio diversity in CCL's products, geographies, and end markets. After a soft second half to 2019, CCL appears to have been planning for an event that could trigger a global 2020 downturn following the longest period of economic expansion since World War II, spanning an entire decade since 2009. This came in the form of the coronavirus pandemic and CCL was well positioned to pounce on business development and capital-allocation opportunities. This has greatly benefitted long-term shareholders.

Strong sales of labels for personal cleansers

In addition, CCL's profitability appears to have improved, as strong sales of labels for personal cleansers has been offsetting slower markets in cosmetic skin care and products associated with travel or distribution at specialty retail, including hair salons. Recently, CCL has made solid profit gains in labels and tubes across the Americas and Europe, but Asia has more impacted by the lockdowns in southeastern Asian countries, and CCL has had some share loss in China.

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