



Own Canada's Top Industrial Stock As the Economy Recovers

Description

CCL Industries ([TSX:CCL.B](#)) is a wonderful company and has outperformed most [stock market indices](#) over the last decade. In the most recent quarter's results, CCL managed to ensure that design sales to electronics customers increased in the low teens, as demand for computers and information technology (IT) peripherals for home-working increased significantly during the pandemic.

Strong results in all geographies

The company has been reporting strong results in all geographies, especially China, although notably not the United States – Mexico – Canada (USMC) region as some customers had operations temporarily closed by government order in Mexico. Profitability has improved significantly and the [operating income margin](#) remains above the CCL's historical average.

Positive impact from reopening assembly plants globally

In fiscal 2020, CCL's automotive division appears to have had a tough first and second quarter as customers closed assembly plants globally but rebounded in the second half with fourth-quarter sales and profitability above the prior year. Profitability dropped significantly for 2020 as sales fell to the low double-digits on the first-half performance.

Increasing sales to alkaline battery producers

However, the company's sales to alkaline battery producers have been increasing on pantry loading by consumers. CCL's Olympic Tapes segment has reduced losses and made some progress with customer qualification approvals. Overall, the profitability of CCL's design division has been improving. CCL Secure also delivered a record year, with a significant increase in operating income margin on solid sales growth.

Impact of productivity gains and higher cash in circulation

Overall, results were strong across the board for CCL. In the United States, sales of passport components, security labels, identification (ID) cards, and specialized government documents offset slower sales of stamps. Polymer currency operations have also been performing very well under the company's ownership on new business wins, favourable mix, productivity gains, and higher cash in circulation in many countries as a result of the pandemic.

Large order timing and a long sales cycle

Quarterly and annual volatility based on large order timing and a long sales cycle is characteristic of CCL's business. CCL's Avery business has been the most negatively affected by the pandemic as reported sales fell by \$105 million. In fiscal 2020, after a solid start in January and February, things appear to have changed in March as workplace closures hit, attended sports and music events and conferences and conventions completely stopped.

Impact on back-to-school demand

Furthermore, CCL's name badge categories with Pro-forma revenues of more than \$100 million in 2019 fell by roughly two-thirds and even higher in event-related products. Pandemic education protocols in North America appear to have significantly impacted back-to-school demand, especially for binders and indexes, on top of lower use in workplaces as sales dropped more than 20%.

Booming direct-to-consumer label sales

However, the company's printable media labels appear to have held up much better, especially internationally. Kids' product lines have been increasing on the company's Stuck-On-You acquisition in Australia, while direct-to-consumer label sales through Avery.com and other e-commerce sites have boomed, aided by CCL's InTouch acquisition, only in part fueled by the pandemic.

Overall, CCL owns an assortment of very strong businesses and is set to outperform as the economy recovers.

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Date

2025/08/15

Date Created

2021/08/23

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