Down Over 40% Year to Date, Is Park Lawn (TSX:PLC) a Stock to Buy Now?

Description

There are plenty of high-quality stocks to own that have been growing rapidly by acquisition, with **Park Lawn** (TSX:PLC) being one of the most unique.

Growth by acquisition doesn't always translate to success, but with a high-quality management team and value-accretive acquisitions, it can allow companies to expand their operations quickly.

For Park Lawn stock, this has been its strategy for years now. The stock operates in the deathcare industry, owning businesses such as cemeteries and funeral homes.

This is an industry that has tailwinds over the next few decades due to an aging population in North America. It's also an industry that's largely recession resistant. However, the majority of its growth in the last few years has come from making high-quality acquisitions as well as the impacts of the pandemic.

Now, however, as the operating environment normalizes, Park Lawn's growth could be stalling. In its most recent earnings report, the stock's adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) fell 16% year over year and was 25% below consensus expectations. Furthermore, its revenue was also 10% below expectations.

So, with the stock falling off significantly after these surprising results, is Park Lawn at risk of losing more value, or is now an excellent opportunity to buy the defensive stock?

Is Park Lawn stock a good investment?

Although a quarter where both revenue and EBITDA are well below expectations is certainly alarming, management doesn't believe that these results will persist.

For example, pre-need sales were down significantly in the second quarter. Still, management believes that can be attributed to a distracted consumer, as the world recovers from the pandemic and traveland other discretionary spending has picked back up.

Therefore, not only does management believe that many of these issues will be short term in nature, but the industry still has significant tailwinds for years with an aging population in North America.

That’s not all, though. Park Lawn’s balance sheet is solid. This puts it in a resilient position in case we enter a recession. However, it also allows the stock to continue looking for more value accretive acquisitions.

And considering Park Lawn operates in a defensive industry and has lost a tonne of value already, it’s certainly worth considering as a long-term investment.

Does the stock offer value at $25 a share?

At roughly $25 a share, Park Lawn is down about 40% from its 52-week high. More importantly, though, Park Lawn stock is trading at a forward enterprise value (EV) to EBITDA ratio of just 9.5 times. That’s well off its three-year average of 12.5 times.

Therefore, Park Lawn stock looks undervalued and appears to offer tonnes of potential at this price. And it looks particularly attractive, since its EBITDA is still expected to grow by 9% this year and another 22% next year, as Park Lawn uses its solid balance sheet to fund more acquisitions and as organic growth normalizes.

So, it’s no surprise that although analysts’ estimates and price targets were reduced after its poor second-quarter earnings, all five covering the stock still have it rated a buy.

Furthermore, the average analyst target price for Park Lawn stock is over $40 — a more than 60% premium from Tuesday’s closing price.

Therefore, while this high-quality and unique long-term growth stock trades undervalued, it’s one of the best to consider adding to your portfolio, particularly if you’re looking to own it for the long haul.

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