



Take Stock – One Stock to Help Get You Past the June Swoon

Description

Take Stock is the Motley Fool Canada's free investing newsletter. To have future editions delivered directly to you, simply [click here now](#).

Since we were last in touch, the markets have gone through a bit of a schism. Since last Wednesday's close, the S&P/TSX Composite is down 2.6% and the S&P 500 is off by 1.6%. This has been tough on the psyche of most investors, myself included.

The crazy thing is, much of the turbulence was caused by the fact that the U.S. economy is getting better! In response to the improving economy, U.S. Federal Reserve Chairman Ben Bernanke remarked last week that the Federal Open Market Committee (FOMC) may moderate its open-market purchases of fixed-income securities later in 2013, and completely wind down the program by mid-2014.

These open-market purchases (i.e., "quantitative easing") have helped keep a tight lid on interest rates. Low interest rates encourage borrowing, which, theoretically, helps spur the economy. The FOMC pulling back from this policy indicates the economy is strong enough to handle more market-oriented interest rate levels. In other words, higher rates should not hinder the economy, given the underlying momentum that exists.

Given the stock market's reaction, investors seemingly beg to differ.

And then there was this ...

In addition to the Fed's comments, China also got in on the act of sending equity investors running for cover. First, it was the country's purchasing managers index (PMI), an indication of manufacturing output that fell to a nine-month low.

Then, the interbank overnight lending rate spiked to what some reported was a high of 25%. The interbank lending rate provides an indication of confidence in the overall banking system. A reading of 25% means confidence was very low.

The rate has since come down as the Chinese government has said it will smooth over any liquidity concerns, but this spike sent a ripple through the global markets. This overnight rate move was reminiscent of what occurred during the 2008-2009 financial crisis — not a welcomed memory by market participants.

But what about this “one stock”?

This past week’s market action should be welcomed by those who consider themselves long-term investors. What Fool doesn’t love a sale? If you have cash on hand, or are making regularly scheduled investments like good savers do, a continuation of this sell-off is going to give you a great chance to buy stocks at cheaper price. Super!

So get ready. Put a list together of companies that you’d love to own and watch them. Should this mid-year sell-off continue, some of these names are going to begin looking mighty attractive.

To help build your list, here’s one of my favourite Canadian small caps that I think at the very least deserves “radar” status:

Newalta Corp. (TSX:NAL).

- Market Cap: \$735 million
- Current Price: \$13.37
- Current Yield: 3.3%

Newalta provides industrial waste management and environmental services. Its focus is on the recovery and recycling of saleable products from processing waste streams.

The company is rooted in Canada’s energy patch, where it has been processing waste since 1993. Thirty Newalta facilities are sprinkled throughout the Western Canadian Sedimentary Basin (WCSB) and are used to process and recover oil and water and reduce solid waste from drill sites.

In the mid-2000s, the company diversified away from the oil patch with a series of acquisitions. Facilities across Canada were acquired that now mostly comprise the Industrials division. Three facilities highlight this division.

One, located in North Vancouver, is a used oil re-refinery. Think about the stuff that comes out of your car when you take it in for an oil change. Used oil goes into Newalta’s facility. New oil comes out. Another, located in Montreal, is Canada’s largest lead-acid battery recycling facility. Old batteries go in. Lead for new batteries comes out. And the third, located about an hour away from Toronto, is a non-hazardous waste landfill. Garbage goes in. Nothing comes out.

Finally, the company has housed two of its highest growth businesses in a unit it calls the New Markets division. Here lives Newalta’s oil sands waste management operations (a different beast than the facilities that operate in the WCSB) and the emerging U.S. division. Newalta has established waste service operations in every major shale oil and gas play in the U.S.

What’s the market missing?

Newalta has created a platform that virtually cannot be replicated and the market is not currently acknowledging this fact. The balance sheet does not properly account for the company's portfolio of permits and licenses, as well as the location of its facilities.

In addition, Newalta is in the process of pouring \$850 million into organic growth initiatives across its platform. These investments are expected to result in annual revenue growth of about 17% through 2016.

If we assume the company's asset base is undervalued, not only does the stock currently trade at less than book value, but it also trades at a lower valuation than its peer group. This prospective growth is not priced in.

A rough evaluation of Newalta's prospects conservatively gets us to a value of \$19 or so for the stock. A slightly less conservative evaluation bumps this figure into the mid-\$20 range. As long as the economy remains buoyant, and activity in the North American oil patch is strong, the stock should gradually move toward these levels as growth initiatives take hold.

The Foolish Bottom Line

Broad market sell-offs come and go, and we have no idea if this past week is just the beginning of a trend or something that proves to be short-lived. What we do know is that over the long-term, solid companies with competitive advantages, like Newalta, will provide an attractive risk-adjusted return on your investment. Panicking is rarely the best solution, and this certainly holds true in the world of investing. Have your shopping list at hand. Summer savings may be around the corner!

Fools Want to Know

Be sure to utilize our "Ask a Fool" service here at Fool.ca. This allows our fellow Fools to communicate directly with us and send along any burning questions they may have. We look forward to addressing a selection of these queries in a future Take Stock or in a dedicated Fool.ca post. Don't hesitate to reach out with whatever's on your mind!

The address is CanadaEditorial@fool.com.

Recent Developments

By the time you've read this edition of Take Stock, Fool.ca will have eclipsed 200,000 site visits in a month for the first time. This is a far cry from the 14,000 or so that we received in January, our first full month. Thanks to all for your patronage and let's keep it going!

'Til next time ... happy investing and Fool on!

Sincerely,

Iain Butler

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The Motley Fool Canada

P.S. Attention all investment writers! We're still looking for new contributors for Fool.ca, so if you're interested in providing Foolish commentary on Canadian stocks, or if you'll be in the Toronto area on July 11 and are interested in attending our Blogger Bonanza, [send me an email by clicking here](#). We have a limited number of seats to fill and this is the last time we'll be offering! Sign up now!

P.S.S. Be sure to follow us on [Twitter](#) and [Facebook](#) for the latest in Foolish investing.

Fool contributor Iain Butler does not own any of the companies mentioned in this report. The Motley Fool has no position in any stocks mentioned at this time.

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1. Investing

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