# Rona Inc. Rebounds With A 30% Boost In Net Earnings

## Description

Earlier this summer investors began a mass selloff of **Rona Inc.** (TSX: RON) pushing the stock price down to $10.80. This was sparked by a Q1 2014 report that announced an 8.2% drop in revenues, a 4% drop in same store sales and the closure of several stores.



**Revenues are in aisle 42 right next to the 2×4's**

Unlike the 8.2% drop which was seen in Q1 2014, revenues only fell by a marginal amount in the third quarter coming in at $1.167 billion compared to $1.169 billion during the same period last year.

EBITDA though saw an increase in the quarter totalling $83.7 million up from $70.7 million. The highlight of the report was the 30% increase in net income which rose to $38 million ($0.32 per share) from $30 million ($0.25 per share) in Q3 2013.

So far this year Rona's adjusted net earnings are up a staggering 46%, currently sitting at $66.1 million vs. $45.3 million during the first three months of 2013. Rona has even been able to cut down its net debt to $188 million from the $347 million which was on the books last year.

**Margins vs. Growth**

What is quite remarkable about these results is the fact that Rona accomplished this despite closing 11 stores since June. All the locations which were shuttered were deemed unprofitable locations located in Ontario and Western Canada. Rona is projecting to reach $110 million in annualized cost savings due to these closures and the reduction of 1,000 retail and management positions.

The other key factor to this quarter was the risky gamble played by Rona. In order to drum up sales the company cut its gross margins from 27.2% to 25.2% by lowering prices. It appears that the gamble has paid off as for the first time in four years it has seen an increase in same store sales.

Same store sales managed to climb by 3% during the quarter, which includes a 2% rise in retail sales and an 8.3% increase in its distribution segment.

### Expansions on the horizon

On the back of these favorable results Rona has announced that the time for expansion has returned or in the words of Rona CEO Robert Sawyer "Given the positive trend in sales and profitability, and Rona's solid financial situation, we are in a position to start expanding again."

Not all of the expansion plans have been released but three of the five new locations were chosen in order to maintain its market share in Quebec. With at least two additional Reno-Depot big box stores slated to be built outside of Quebec.

These new stores follow a renovation program which was implemented at 16 of its Reno-Depots locations in Quebec.

### Are investors late to the party?

As mentioned earlier Rona's stock had a really rough summer which began with a 52 week low of $10.80 in early May. This gave investors about a two month "sale" before a noticeable upswing began in July. Since then the stock peaked at $14.75 on August 27, and has since hovered in the $13.00 to $14.00 range.



A day before the earnings release Scotiabank set a price target of $13.00, which is in-line with the $12.00 to $14.00 range most other analysts have set during the past couple of months. Many analysts are sticking with their "sell" ratings.

For those wishing to invest in Rona and looking for a similar, quick upside move, you may have to wait until after winter, as once again it is projected just as or ever colder than last year. If it is as cold, expect to see a similar drop in sales in next year's first quarter.

### CATEGORY

1. Investing

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cameronconway