



Tricon Capital Group Inc. Is the Definition of Buy Low, Sell High

Description

Buying distressed assets is typically a way to outperform the market. Given the higher level of risk, however, it's important to have a long history of making consistently wise investment choices. One such company, **Tricon Capital Group Inc.** ([TSX:TCN](#)), has done just that.

Tricon is a North American real estate asset manager, investing primarily in the residential sector. Its strategy mostly focuses on land development and home-building. Its investment portfolio includes 22,500 single-family lots, 6,300 multi-family units, and over 3,300 single-family rental houses. As we'll see, Tricon has chosen a different path than most REITs, instead focusing on areas that allow it to buy and develop properties at steep discounts.

Taking advantage

After the subprime crisis occurred in the U.S., Tricon sped up its acquisition strategy to capitalize on decade low prices. Its focus was to buy assets at deep discounts from both the market and directly from banks. Being one of the only major buyers during a time of crisis ensures higher profitability levels. We can already see that strategy paying off.

In 2012, the average price of a home in its portfolio was \$87,600. Today, that figure stands at \$135,300, a roughly 50% increase. Tricon has proven its ability to buy assets when others are fearful, profiting greatly along the way.

Tricon anticipates high levels of growth

Over the past 25 years, the company has generated an average rate of return of 18% on its development projects. Management has identified a number of potential investment opportunities that would generate attractive returns within the company's 15-20% annual growth target.

One such initiative is a massive move into additional residential segments. The market fundamentals for multi-family rental in the U.S. remain attractive as the recent financial crisis has delayed the normal formation of households, resulting in pent-up rental demand from a historical high of 23 million young adults still living at home.

Additionally, Tricon believes the growth fundamentals surrounding youth employment have never been stronger, with the last three years achieving the largest increase in employment for young adults since the mid-1980s. Tricon believes it can develop a Class-A rental portfolio with returns that are 150-250 basis points above the market.

Insiders and analysts are bullish

Last week, a director of the company purchased \$50,000 worth of shares at roughly \$10 apiece. With shares trading at \$10.50, investors still have time to get in at a similar price.

Analysts also seem to agree with the company's management team. Out of eight analysts that cover the stock, six have a buy rating, while the other two have a strong buy rating. Last week, **RBC Capital Markets** reaffirmed its outperform rating.

Don't bet against Tricon

With a 25-year track record, it's reasonable to believe that Tricon can continue to invest wisely and outperform the market. With management recently buying shares with their own capital, don't be surprised if insiders are correct in believing that shares will have upside for years to come.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TCN (Tricon Residential Inc.)

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