

Billionaire Jim Pattison Owns 25 Million Just Energy Inc. Shares: Should You Buy, Too?

Description

I'll admit, I've been bearish about **Just Energy Inc.** (TSX:JE)(NYSE:JE) shares for a long time.

A big part of my bearishness came from hearing a steady stream of complaints about the company from its customers. There are thousands of Canadians who have signed up for Just Energy's services who end up so angry about the experience that they spread their tales of woe to whoever will listen.

Most complaints follow a similar path: somebody appears on a customer's doorstep, offering to save them money on their gas or electric bill (sometimes both), depending on where the customer is located. The customer signs up for the service, and then discovers when reading the small print some of the promises may have been exaggerated.

But at the same time, there's more to an investment than just a few very vocal customers. I'm a big fan of investing in the same companies as some of Canada's greatest investors. If a billionaire has a big portion of their cash in a company, that's usually a pretty good reason for the average investor to take notice. After all, you don't make it to the Forbes list by making foolish decisions.

Billionaire Jim Pattison is one of my favourite investors. The man's company is stuffed with easy-to-understand businesses like grocery stores, car dealerships, and advertising. He owns 25 million Just Energy shares, a stake worth approximately \$200 million today.

Pattison isn't the only billionaire with a big stake in Just Energy. Ron Joyce, the man who grew Tim Hortons from a few coffee shops in the Hamilton area into the behemoth we know today, owns 18.7 million Just Energy shares. Between them, Joyce and Pattison own approximately 29% of the company.

What exactly do these two billionaires see in this company? Let's take a closer look.

The bull case

The nice thing about Just Energy compared to just about every other energy company is that it doesn't generate any power or own any natural gas pipelines.

What it does is it buys a certain amount of energy from the power and gas suppliers in the areas where it operates, and then uses various hedging methods to protect itself from movement in the underlying commodity.

This allows the company to offer a fixed price to customers for the duration of the contract. If prices go up, it works out pretty well. If prices go down and customers see their friends paying less, they probably won't be very happy. Just Energy has responded to this threat by pushing a contract that offers variable pricing with a built-in cap to protect consumers from price surges.

The average business greatly benefits from this sort of price protection. Electricity can be a huge input cost. If these businesses know approximately how much they're going to pay for power over, say, a three-year period, that's hugely beneficial—even if it isn't the lowest price. Approximately 60% of Just Energy's revenue comes from the commercial market.

Another reason why many investors are opposed to the company is the door-to-door sales tactics. I'm the first to admit I get annoyed whenever somebody comes to my house to try and sell me something. But only 26% of sales come from this method. I suspect this percentage will keep dropping over time as the company's online presence continues to gain traction.

Just Energy is improving its financial picture as well. Net debt was \$960 million in 2014. That number is just \$605 million today. Free cash flow has also improved, coming in at \$148 million over the last 12 months. Based on today's market cap of \$1.18 billion on the TSX, shares are trading at less than eight times free cash flow.

After two dividend cuts in the last five years, the company's dividend finally appears to be pretty safe. It paid out only \$88 million in the last year, giving it a payout ratio of 59% of free cash flow. That's not bad for a company with a 6.2% dividend yield.

Investors who dismiss Just Energy based on a bad experience with a door-to-door salesman might be missing out on a good opportunity. It's pretty obvious Jim Pattison and Ron Joyce sure think so, anyway.

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