Has Liquor Stores N.A. Ltd. Stock Passed Out for Good or Is it Ready to Sober Up?

Description

Liquor Stores N.A. Ltd. (TSX:LIQ) reports its first-quarter earnings next week, and if recent reports are any indication, the results aren't going to be pretty.

The problems for Liquor Stores N.A. stem from its operations in Alberta and Alaska, where the economies have been hurt by the drop in oil prices. While oil is slowly making its way back, most experts suggest things won't get better until 2017, which means the company is going to continue to take it on the chin for several quarters.

So, the question you have to ask yourself is, can Liquor Stores N.A. stock can pick itself up off the floor and get back in the game?

Unfortunately, no one has the answer to this question. All investors can do at this point is deal with what's real and what's not.

The dividend cut is real. In 2015, Liquor Stores N.A. used 165% of its cash from operations to pay out $26 million in dividends. **Canadian Tire**, by comparison, used just 16% of its operating cash. Taking on debt just to pay the dividend is not a sensible move in any situation, but especially not when paying the interest on that debt isn't easily done given the deterioration in some of its markets.

In March, it announced a two-thirds cut to its dividend from $1.08 annually to 36 cents. That will save the company $18 million in cash in 2016, which it will reallocate to its future growth plans. A smart move. The dividend was much too high, and if this stock wants to fly again, it's got to gain greater scale in the U.S. In addition, it cut 20% of its staff in both its Edmonton and Louisville offices, saving the company another $2.5 million annually.

With more than $20 million to invest in 2016 and beyond in its future growth combined with a slight reduction in the number of stores opened over the next 24 months—down from 10 to somewhere between four and seven—means it should add a dollar or more in free cash flow, money that could be used to finance further acquisitions that give it immediate cash flow.

However, if deals don't present themselves over the next two years, CEO Stephen Bebis could opt to pay down some of the $130 million in debt currently outstanding or it could buy back some of its stock which is trading within a couple of bucks of its all-time low of $6.40, hit earlier this year. I'm not a big fan of buybacks, so I would opt for the debt-repayment option.

The important point, however, is that Bebis and his team do have options and, while things look pretty bleak right now, once Alberta turns, so too will this stock. Maybe not to $24, where it traded in 2008, but at least into double digits.

CATEGORY

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2. Investing

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