

3 Reasons to Own North West Company Inc .

Description

The first company that comes to mind for investors interested in Canadian retail stocks is **Canadian Tire Corporation Ltd.** ([TSX:CTC.A](#)), one of the iconic brands in the country. One of the least likely to spring to mind is **North West Company Inc.** ([TSX:NWC](#)), a Winnipeg-based retailer that's probably best known for serving underserved communities in Canada's north.

Well, earlier this month, North West announced that it had acquired the Riteway grocery store chain in the British Virgin Islands, increasing its already significant Caribbean presence in the grocery business.

This is but one of many reasons to like North West Company. Read on and I'll tell you my three reasons to own its stock.

A generous yield

North West currently pays a 31 cent quarterly dividend that works out to a yield of 4.2% as of May 11. Trading within 10% of its all-time high of \$33, which it hit in February, its stock has backed off a little since then, providing investors with a slightly better entry point than there was three months ago.

Over the past five years, North West has increased its dividend by 6.6% annually, and while that might not seem like a lot compared to Canadian Tire, which has grown its dividend by 15.9% annually over the same period, it's a much better yield than Big Red at 1.6%. Effectively, you're being paid twice as much each year to own its stock, which makes sense given that Canadian Tire's total return over the past five years is significantly higher.

The past is the past. North West's future is very bright. I for one don't mind being paid 4% to wait for it to reveal its potential.

Diversification and balance

Fiscal 2015 was a good year for North West, generating \$151.3 million in EBITDA earnings from \$1.8 billion in revenue. Its international operations accounted for 39.3% of its overall revenue, 560 basis points higher than just two years earlier. Excluding the gains from foreign exchange, its international operations saw EBITDA earnings increase 23.3% year over year to US\$41 million on US\$544 million in revenue.

Its international same-store sales increased by 5.2% in 2015, 50 basis points higher than in 2014 and 210 basis points better than its Canadian stores. However, on an EBITDA-margin basis, Canada still managed to outdo its international division, generating a 9% margin, 150 basis points higher.

What's important to the performance of its international operations is that they've moved higher at exactly the right time because its Canadian operations have seen some of its performance tail off. For example, its Canadian return on assets in 2015 was 20.4%, 550 basis points lower than in 2013. Meanwhile, in those same two years, its international operations have seen an almost doubling of

RONA to 18.1%, much closer to the typical Canadian return on net assets.

Its latest acquisition only helps to narrow the gap between the two segments; it's becoming a more balanced operation that should help deliver market-beating returns in the next 12-24 months.

Giant Tiger

While its Canadian operations showed some weakness in 2015, one of its big commitments in the coming years is to grow its Giant Tiger business in western Canada. To that end, Northwest Company will open four stores in 2016 and provide another eight with complete upgrades, reflecting its emphasis on a better store experience.

In addition to the new and renovated stores, Northwest is rolling out a new retail point-of-sale and merchandise management system that will be fully implemented across its entire store network (not just Giant Tiger) within 24 months.

Operating 34 Giant Tigers out west with more than 550,000 selling square footage, North West is counting on this banner to deliver for its Canadian operations, which haven't grown nearly as quickly in terms of sales per average selling square foot over the past five years.

Like a team, Giant Tiger is going to play its part.

Bottom line

If you give North West Company two to three years to move the needle on its Canadian operations, while its international operations continue to get bigger and better, I could see the stock doubling sometime within those 36 months. In the meantime, sit back and enjoy the dividend.

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1. Editor's Choice

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2. TSX:NWC (The North West Company Inc.)

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