

## 3 Stocks to Cash In on

### Description

**Indigo Books & Music Inc.** ([TSX:IDG](#)) just rang in a 2016 fiscal operating profit of \$19.95—its largest annual gain since 2010—when it managed to generate double this past year’s achievement on almost the identical amount of revenue. While there’s no doubt that Indigo’s business was stronger six years ago, its current cash position tells a story that’s actually quite good.

Indigo is a cash cow. It finished 2016 with \$216 million in cash and cash equivalents. That’s 43% of its current market cap. It has no debt. Thus, its enterprise value is \$291 million. If Heather Reisman were crazy enough to sell the company at \$20 per share, the buyer would be paying approximately \$11 after backing out the cash.

That’s a pretty good deal when you consider it earned \$1.09 per share in 2016 on the back of double-digit same-store sales at both its superstore and smaller-format locations. Add to this an online business that grew 15.3% in fiscal 2016, and you’ve got a stock worth more than \$20.

Do the math. At \$20 per share a buyer is paying about 10 times earnings once you’ve backed out the cash. This year’s earnings included \$6.4 million in recovered income taxes, so we’ll use operating earnings instead, which were \$0.76 per share. That takes the multiple up to 15 times earnings. On an adjusted EBITDA basis, Indigo trades for about 6.8 times its enterprise value compared to 2.7 times enterprise value for **Barnes & Noble, Inc.**

But before you go out and buy Barnes & Noble stock, just remember that Indigo is the one with the double-digit same-store sales growth. Indigo has worked hard to transform its business, and having \$200 million in cash is going to be attractive to would-be acquirers. However, CEO Heather Reisman and her husband Gerry Schwartz hold voting control, so it’s not going anywhere without their say so.

Cash, in Indigo’s case, is king.

And so it is with **George Weston Limited** ([TSX:WN](#)) and **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)), which have \$20.16 and \$13.33 in cash per share, respectively, making them the first- and second-largest holders of cash on a per-share basis in Canada (excluding financials).

Not surprisingly, all three stocks have achieved double-digit stock returns over the past 52 weeks with Indigo leading the way up 66% through May 31.

What do they all have common? Retail, that’s what. While a segment of the retail community in Canada is suffering badly, others such as these three (George Weston indirectly through **Loblaw Companies Limited**) are managing to do well despite a sputtering economy.

When in doubt, look for the cash. It’s often the best sign a company’s doing well.

### CATEGORY

1. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:IDG (Indigo Books & Music)
3. TSX:WN (George Weston Limited)

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