Forget BCE Inc.: Get These 2 Stocks for the Price of 1

Description

As stocks on the TSX go, you could do a lot worse than owning telecom conglomerate **BCE Inc.** (TSX:BCE)(NYSE:BCE). It currently yields over 4% and is up more than 17% year-to-date. With almost $50 billion in assets and free cash flow approaching $3 billion, it's definitely a stock that allows you to sleep at night.

But if you believe in getting a good deal every once in a while, I suggest you forget about BCE stock and buy **Leon's Furniture Ltd.** (TSX:LNF) and **Power Corporation of Canada** (TSX:POW) instead. Here's why.

As I write this, Leon's and Power Corporation are trading at $16.22 and $27.04, respectively. You can pick up these two stocks for approximately $43 or 30% less than BCE. Leon's is a small-cap, Power Corporation would best be described as a small large-cap, while BCE is a mega-cap.

Essentially, I'm asking you to trade the security a mega-cap provides for the growth offered by Leon's combined with the value proposition that is Power Corporation. Together, you get more for less.

Why Leon's?

Given the retail business is extremely shaky at the moment in both Canada and the U.S., it probably seems like a strange recommendation; it's almost as if I'm asking you to run into a burning building.

Yes, there are a lot of struggling retailers. Leon's is not one of them.

The largest home furnishing retailer in Canada, it finished the second quarter with 297 stores and more than 11 million square feet of retail and distribution space spread across six banners, including Leon's, The Brick, and United Furniture Warehouse. The Brick Mattress Store addresses the company's fastest-growing product segment, providing further validation that its 2013 acquisition of The Brick for $700 million was a good idea.

In 2012 Leon's had $880 million in system sales and $79 million in EBITDA; over the past 12 months, it's generated $2.4 billion in system sales with $166 million in EBITDA. While gross margins declined by 146 basis points to 41.92% in the second quarter ended June 30, its top-line total system-wide sales increased 4.4% year over year to $606.5 million with same-stores sales growth of 4.1%.

Flat earnings are not a big concern at the company. It will continue to chip away at its operating cost structure, and rising sales mean rising profits. While the integration of The Brick has been relatively effortless, there is still is work to be done.

The bigger issue is deleveraging the balance sheet. After completing its acquisition, it had $505 million in long-term debt. It finished the second quarter with $396 million outstanding–a 22% reduction, but significantly higher than the zero long-term debt it carried prior to the deal.

Considering the Canadian economy has been sputtering so far in 2016, it’s a miracle that Leon’s has been able to grow same-store sales at all. Trading at a price-to-sales ratio of 0.6, less than half the TSX, not to mention its five-year average, I see Leon’s valuation growing as it continues to open more stores and increase the bottom line.

It’s growth at a reasonable price.

Why Power Corporation?

When you look at Power Corporation’s second-quarter results, there’s definitely nothing to write home about. Operating earnings were $306 million–$117 million or 28% less than in the same quarter a year earlier on $13.9 billion in revenue.

However, it’s the long-term value creation that continues to make it a wonderful stock to own.

Five years ago Power Corporation stock was trading at $22 per share. Today, it trades around $27–a 23% increase in value. That’s not much. However, its operating earnings per share, book value per share, and total assets increased by 63%, 50%, and 71%, respectively. The book value number is the most interesting of the three because in five short years it’s gone from a price-to-book ratio of 1.17 down to 0.9.

That, to a certain extent, is a lack of faith by investors in both Investors Group and Mackenzie Investments’s ability to overcome the move away from mutual funds to ETFs. In my opinion, **Power Financial Corporation** (TSX:PWF), Power Corporation’s sister company, is doing what it needs to do to remain relevant, including introducing a group of active ETFs.

Over the past five years, Power Corporation stock has traded under $27 on just two occasions, above $30 on three occasions, and only once in the past 10 years (2008) below $20.

If it ever goes below $20, I’ll absolutely be buying it. At $27, however, it’s still a good deal, especially with a 4.9% yield.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
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3. TSX:LNF (Leon's Furniture Limited)
4. TSX:POW (Power Corporation of Canada)

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