



## The Smart Money Owns Just Energy Group Inc.: Should You Buy it too?

### Description

Many investors are big fans of a practice billionaire investor Warren Buffett refers to as “coat-tailing.” It’s a simple concept that essentially means one investor realizes the other is on to something, so the latter copies the former’s idea.

Buffett’s peers were the ones copying his ideas in the 1950s and 1960s before Buffett moved his investing inside **Berkshire Hathaway**. As the Oracle of Omaha gained more fame and people really started to pay attention, the number of investors coat-tailing Buffett only grew. Even today, when Berkshire announces it owns a stock, that stock immediately gets a nice lift.

Investors in Canada wishing to coat-tail can get inspiration from **Fairfax Financial’s** CEO Prem Watsa. Watsa is loved by many value investors, but he is moving towards the Berkshire model of buying whole companies.

One of my personal favourite billionaires is Jim Pattison. Pattison, for those unfamiliar, is the man who grew one car dealership into a multi-billion-dollar empire with holdings in grocery, media, advertising, packaged food, and, of course, car dealerships.

Pattison also is known to take large stakes in other companies, like his position in **Just Energy Group Inc.** (TSX:JE)(NYSE:JE), ownership that at last count was more than 25 million shares and valued at some \$175 million.

He isn’t the only billionaire with a substantial position in the somewhat controversial energy provider. Ron Joyce, who is famous for building up Tim Hortons from a small chain of doughnut shops to a nationwide powerhouse, owns 18.7 million shares.

Together, Pattison and Joyce own approximately 44 million shares, or right around 30% of the company. Let’s take a closer look at what they like about Just Energy.

### The business

Just Energy has a simple business model. It locks in the price for either power or natural gas using

hedging techniques; it then goes into the marketplace and sells this energy to both businesses and residential customers. It differentiates itself by using somewhat aggressive sales tactics.

These sales tactics are why many investors will never invest in the company. They've heard too many horror stories from customers accusing sales reps of overpromising and underdelivering.

But that's on the residential side. On the commercial side, the company has thousands of happy customers. That's because it can offer a business the ability to lock in the price of their power. The ability to do that is hugely important for certain businesses.

Approximately 40% of revenue comes from residential customers and 60% comes from businesses.

## **Revenue growth**

Just Energy has had remarkable revenue growth over the last decade, increasing the top line from \$1.53 billion to \$4.11 billion. That's a growth rate of more than 10% per year.

Analysts expect that growth to slow over the next couple of years with revenue coming in at \$4.19 billion and \$4.28 billion for the company's fiscal 2017 and 2018, respectively. However, keep in mind the stock is only followed by three analysts.

The United States is a key growth market, even though 70% of revenue already comes from there. The company is only active in 19 states, but it has plans to expand. Additionally, management has identified other international opportunities, including further expansion into the U.K. as well as Mexico, Japan, and certain European markets.

## **Strong free cash flow**

Just Energy struggled to produce consistent earnings between 2011 and 2014, which caused it to cut its dividend—twice. Even after those cuts, the company still pays a generous 7.4% yield.

But results have been much better, at least from a free cash flow perspective. It posted \$0.51 per share in free cash flow in its fiscal 2015, and followed that up with \$0.78 per share in 2016. That gives the stock a very reasonable valuation of about 8.6 times free cash flow.

Even if we look at the average of its free cash flow over a decade, shares trade at 9.2 times its average free cash flow.

## **Should you join the billionaires?**

If investors can get past Just Energy's sales techniques, there's certainly meat to this investment. It trades at a reasonable valuation with a strong history of growth behind it. There's little wonder why two of Canada's richest men found it attractive.

## **CATEGORY**

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