

North West Company Inc. Share Price Heading North!

Description

Yesterday, **North West Company Inc.** ([TSX:NWC](#)) announced earnings per share in the amount of \$0.57, beating last year's number of \$0.43 by almost 33%. For a defensive stock, this increase in earnings is a huge gap up!

Following this good news, the company declared a dividend of \$0.31 per share, choosing not to increase the dividend from the previous year. With higher earnings, however, the result is a declining payout ratio. In the same quarter last year, the payout ratio was 73%, whereas this year the quarterly payout ratio is closer to 54%. While some may view this as a very high payout ratio, it is, in fact, sustainable for a defensive, well-established company like North West Company Inc.

Looking at the past five years, the dividend-payout ratio as a percentage of profits has ranged from 78% to 90%. Through the first three quarters of fiscal 2016, the ratio has declined to 73%—the lowest it has been in quite some time. The opportunity being offered to investors could be huge!

In the past, the stock has traded at a P/E (price-to-earnings multiple) between 15 and 21 times earnings with a dividend yield ranging from slightly under 4% to slightly over 5% throughout the fiscal year. At current levels, we have the information for the first three quarters of the fiscal year in addition to the most important quarter (the third quarter). The numbers look good.

Assuming the company can repeat the success from last year's fourth quarter again this year, total earnings would be \$1.58 and a dividend of \$1.24 would be paid. The potential for a further dividend increase would be as obvious as ever. Having put the dividend raise on hold for a few quarters, the company may want to review this policy should the earnings continue to increase at this rate.

The best part of the story which sets this company apart from the competition is where the business is taking place. Operating local stores or grocery stores in remote communities in the northern part of Canada and Alaska, the company's locations are oftentimes the only game in town. The opportunity to increase revenues and earnings will be put to the test when the newest acquisition gets folded into the bigger picture.

Roadtown Wholesale Trading Ltd., a company which operates an additional eight retail outlets in the British Virgin Islands, will soon become part of the North West Company Inc. family.

Conclusion

With a number of sideways quarters in the rear-view mirror, the management has done an excellent job of restarting the growth machine. With the earnings per share increasing by almost 33% and an acquisition on the way, it is understandable the company will need to conserve cash and hold off on any dividend increases for the time being.

Existing and new shareholders do, however, have a lot to look forward to as the acquisition will bring another eight locations into the mix and hopefully benefit from economies of scale.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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