Year in Review: North West Company Inc.

Description

Having hit the pause button in 2016, **North West Company Inc.** (TSX:NWC) offered investors a fantastic buying opportunity during the year. Looking ahead to 2017 and beyond, shares are offering a high probability of a consistent return.

For the first time in the past five years, the company did not increase the dividend, instead pushing expectations further into the future as to when the next increase would come. The result was a pullback in the share price, which offered new buyers a yield in excess of 5% for several months during 2016. The low price of year was $24.08.

The company also announced the acquisition of another grocery chain called Roadtown Wholesale Trading Ltd., which is a company located in the British Virgin Islands. This transaction is expected to close during 2017.

Looking forward

With the completion of this transaction and the expected opening of several new Giant Tiger stores, there is a clear path to further growth and more dividend increases. From 2012 to 2016, the CAGR (compound annual growth rate) of the dividend was 9%. Potentially, the 9% CAGR was a little too aggressive, and after a small pause, the company will continue the upward increases. At this time next year, we hope to view the hitting of the pause button as a simple buying opportunity for investors.

Looking back over the past five years, in every year, the buying opportunity has been found by looking at the dividend yield. When shares traded at a 5% dividend yield, the share price was close to the 52-week low.

As a defensive company, the revenues, earnings, and dividends paid have all been very consistent. It’s difficult to find a security with a beta as low as 0.17, a sustainable dividend yield close to 5%, and the potential to easily appreciate by 10% annually. Could this be the one?

My expectations for this stock is a compounded annual rate of return between 10% and 15%. Basically, I expect the share price to increase at a rate of 10% per year in addition to the 5% dividend yield. Depending on the entry point, each investor will have returns which will be a little higher or a little lower. The purchase price is paramount to the return.

Why should we be excited about 15%?

The best possible idea of the year does not simply translate to the highest potential return. Oftentimes, a high return goes hand in hand with a high degree of risk. As a defensive stock, North West Company Inc. offers shareholders a very high probability of growing earnings at a sustainable rate.

Although it is highly unlikely an investor will double their money by investing in this stock over the next two years, it is, however, highly likely an investor will double their money over a five-year period if they continue to hold this stock. Let’s break out some simple math and mark the date on next year’s calendar.

$\$100.00 * 1.15^5 = \$201.14$

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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