

Income Investors: Ride This 4.1% Yield to Profits

Description

Winnipeg-based retailer **North West Company Inc.** ([TSX:NWC](#)) finally closed its US\$32 million acquisition February 7 to buy majority control of Riteway Food Markets, a British Virgin Islands retail and wholesale operation, which will add US\$5 million to the company's bottom line.

I say, finally, because this particular deal was one of the reasons I [recommended](#) North West stock last May when it was first announced. The pace of life is slower in the Caribbean; I guess that also applies to mergers and acquisitions.

North West is best known as a grocery and general store servicing communities in northern parts of Canada and Alaska. It also has a significant Caribbean operation, which Riteway is now a part of, along with a small amount of business in the South Pacific.

It's not a sexy business — imagine **Costco** without all the fanfare — but its 4.1% yield should be mighty attractive to income investors. More important is the fact that its yield over the past decade has never fallen below 4%, and it has delivered an annual total return of 9.9% while providing investors with an even mix of income and capital appreciation.

Since 2007, it has had just one down year — a negative total return of 12.8% in 2008, which was more than 20 percentage points better than the S&P/TSX Composite Index in that awful year for the markets — proving that boring can be a good thing.

But really, North West is providing a service to communities that otherwise might not have anything to shop for, making it a worthy enterprise to consider investing in.

Recently, I visited a Giant Tiger in Picton, Ontario. The Ottawa-based discount retailer is in the midst of expanding its network of more than 200 stores in eight provinces by opening 10-15 locations annually for the next few years.

I mention Giant Tiger because North West has a 30-year Master Franchise Agreement with the retailer that gives it the exclusive rights to open Giant Tiger stores in western Canada through July 31, 2040.

Operating 36 locations, including its newest store in Wetaskiwin, Alberta, which opened October 8, 2016, Giant Tiger is a big part of North West's growth initiatives which include remodelling all of its stores. Given the success of **Dollarama** and other discount stores in Canada, the future for this part of its business is very bright.

In the past three fiscal years from 2013 to 2015, North West's same-store sales have increased 1.8%, 2.4%, and 3.8%, respectively. Same-store sales through the nine months ended October 31, 2016, slowed slightly from fiscal 2015, increasing by just 1.4%.

The Canadian stores did fine, but in Alaska, where citizens get a healthy annual dividend cheque from the government due to the oil revenues, a 50% cut in the dividend really hurt its stores there.

With a sound balance sheet and earnings growing at a decent clip — EPS in Q3 2016 up 32.6% to \$0.57 — 2-4% same-store sales growth is more than satisfactory.

North West's stock currently trades around \$30. At this price, it's a little pricey, but it's still decent value given the dividend. At \$26 or below, you're getting an absolute bargain.

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