



## Should Investors Get Cozy With This Industry Leader?

### Description

**Leon's Furniture Ltd.** ([TSX:LNF](#)) has become an industry leader in home furnishing retail by selling high quality brand name products at guaranteed low prices. With over 100 years in the industry and stores in every province in Canada, the company has developed a brand Canadians know and trust. However, does its leadership position justify a buy?

Here's a look at the company.

### The game changing acquisition

The biggest move the company has made to date was acquiring The Brick back in 2012. This acquisition has translated into significant sales growth as the company's revenue increased by 149% in 2013, and has increased by an annual average of 8% since the acquisition. Therefore, with steady revenue growth behind two recognized brands, the company should remain an industry leader for years to come.

### The dividend

Currently, the stock offers a yield of 2.82%. Although this isn't a yield to be excited about, the payout is conservative based on its earning. The company currently has a payout ratio of 38% and has maintained an annual dividend of \$0.40 per common share since 2012. However, I do believe the company could raise its dividend in the future.

The company has been steadily bringing down its debt levels since the acquisition of the Brick. In addition, the company is now generating a free cash flow-per-share of \$1.68. Therefore, with strong cash flows and lowering debt levels, the company can afford to reward investors with a dividend hike in the future.

### The valuation

Fortunately for investors, the stock is slightly undervalued based on historical averages. The stock currently has a price-to-earnings ratio of 16.5 and price-to-book ratio of 1.8. Both of these key valuation

metrics are below the company's five year averages of 17.5 and 2.0. Therefore, investors don't have to overpay for a company with strong earnings in a leadership position.

### **The risks**

The biggest threat to the company's retail sales is consumer debt. It is continuing to rise in Canada, and if interest rates take a hike, consumers will cut their spending habits and may refrain from making larger purchases for furniture and appliances. That being said, interest rates aren't going to sky rocket overnight, therefore, the company's sales shouldn't take a hit in the immediate future.

### **Foolish bottom line**

Although there is a lot to like about Leon's, I don't believe the company falls under the category of "buy and hold forever." The potential headwinds of consumer debt continuing to rise outweigh the growth potential of the company. There are better opportunities in other industries for investors, and I would recommend staying away from the retail industry in general, regardless of any company's leadership position.

Keep cool and Fool on!

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:LNF (Leon's Furniture Limited)

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