
# Why Great Companies Are Sometimes Not Great Buys

## Description

Over the past six months, investors holding shares in **North West Company Inc.** (TSX:NWC) have done very well. In November 2016, shares traded under $25 per share and yielded in excess of 5%. Investors got a fantastic bargain with the potential for additional returns through either capital appreciation or dividend increases.



The good news for those who purchased shares is, the dividend has increased, which translated to a higher share price. The quarterly payout of $0.31 per share has increased to $0.32 per share beginning the first fiscal quarter of the year. The company's year end is the end of January.

Although this increase is relatively small at only 3.2%, most investors with a day job would probably be willing to bet this increase is higher than the average wage increase for a blue-collar worker. In a low-inflation economy, an increase of 3.2% is huge!

Let's move on to the share price. The $25 bargain did not last long. Shares are currently priced at approximately $32 per share, and the dividend yield is no better than 4% as investors are jumping in to a very defensive security with only a small potential for revenue growth.

For those not aware, North West Company owns and operates grocery stores (or general stores) in remote parts of Canada and Alaska. The company can grow organically by either a small amount per year or through acquisitions.

The business operations are absolutely fantastic, while the share price has increased to reflect this relative certainty. At a trailing price-to-earnings ratio (P/E) of more than 20 times for a low-growth defensive stock, shareholders must decide if they are prepared to purchase shares in this company to receive no more than a 4% yield with the potential to lose a part of their capital over the next 12 months or so.

Obviously, as a long-term investment, the expectation will be to see the share price and dividend increase over time, resulting in a smaller probability of experiencing a loss in capital as time goes on, but investors still need to stop and ask the question: "Why take the risk?"

If we look at North West Company's history, the shares have traded at a price (almost every year) that offered investors a yield of 4% or 5%. Essentially, the trading range of the security has been dependent on the annual dividend of the company in addition to the P/E. It is important to note that the earnings per share have increased very consistently over the past few years.

While investors need to be looking to invest in fantastic companies, it is just as important to be paying a fair price for the shares of the company. In this case, investors may be getting the last straw in a great box.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

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

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Yahoo CA



**Category**

1. Dividend Stocks
2. Investing

**Date**
2025/08/23
**Date Created**
2017/05/18
**Author**
ryangoldsman