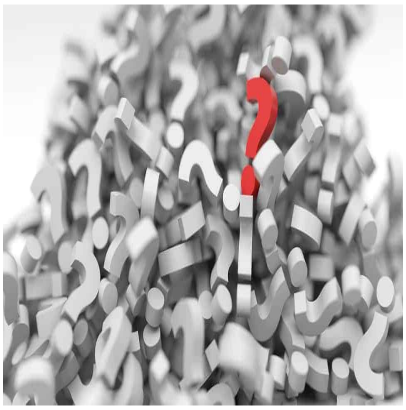

Will Lassonde Industries Inc. Ever Do a Share Buyback?

Description

Over the past several weeks, **Lassonde Industries Inc.'s** (TSX:LAS.A) share price has traded sideways after declining from a 52-week high of $245 per share. Although the company has performed very well over the past five years or so, shareholders may want to consider taking their hard-earned money and looking for better bargains elsewhere.

While the business of selling juices is typically a very defensive and consistent business, the truth is, Lassonde Industries may no longer offer investors much potential upside without a new catalyst. The most obvious catalyst is the potential of a share buyback.

With a steady share count of just under seven million shares outstanding, the company has been consistent over the last half-decade while continuing to retain a large amount of the excess cash. The company currently offers a dividend yield of approximately 1%, and the leverage ratio has declined steadily since 2012. Where is the money going?

The total amount of debt outstanding has declined from close to $375 million in 2014 to approximately $250 million at the end of 2016. While investors will probably think this is a good thing, the truth is, the repayment of debt in the case of Lassonde Industries is not as clear as we think.

While the reduction in interest expenses is often a good thing, the increase in assets in comparison to liabilities has kept the return on equity at a relatively low 13% over the past few years. Instead of doing a share buyback to keep the financial leverage consistent and reduce the share count, the company has chosen to repay debt, making the equity portion a much larger part of the total capital structure.

If we compare 2013 to 2016, debt made up approximately 30% of the company's capital structure in 2013 with equity totaling approximately 70%. In 2016, the numbers became even more lopsided with debt accounting for no more than 20% and equity still making up the remainder. The company has no preferred shares outstanding.

Given the refinancing of debt and the increase in the share price, the company's cost of capital declined from 2013 to 2016. At a dividend rate of 1%, the company must pay approximately 1% on the amount outstanding as an actual financial cost, whereas the costs are approximately 3.75% on a posttax basis.

The company made a net profit of approximately $72 million for fiscal 2016 and paid dividends totaling approximately $13.5 million, while the debt repayments were close to $67 million. Investors have shared in what seems to be only a token amount of the profits as the money is being used to repay debt.

While it is commendable to see company management act cautiously instead of buying back shares to increase the earnings per share (EPS), it would also be nice to see a more consistent financial leverage ratio. With the potential to initiate a share buyback and increase the EPS and return on equity, investors will have to be patient.

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ryangoldsman