Should You Avoid Fortis Inc. at 52-Week Highs?

Description

Fortis Inc. (TSX:FTS)(NYSE:FTS) is coming off a 52-week high at over $47 and has since dropped to under $46. But does simply being at a high indicate the stock has been overbought and should be sold? This is only one indicator of performance and shouldn't be the main reason to buy or sell a stock.

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Valuation is one area where you can start to look to assess if a stock is over or under valued. Fortis is trading currently 24 times earnings and has normally been at 20 times or under. Normally, it's high-tech growth stocks that trade around +25 times earnings and still present a lot of upside, so for a utility company to trade so high, it might suggest it is overvalued.

Another valuation indicator is price-to-book value. Fortis is trading at only 1.4 times its book. However, over the past five years, it normally has not gone much above 1.5. So, this too suggests not much more upside in the stock if you give price-to-book value any weight.

Fortis offers a good dividend of 3.5%, so it will give you a buffer in case there is more of a correction on the way. However, I think that at that dividend rate, there might be other stocks that offer a bit more potential upside—namely, bank stocks.

Home Capital Group Inc. (TSX:HCG) is at the other end of the spectrum. It recently reached a 52-week low. It has since recovered significantly, going from a low of $5.06 to now trade around $16.50—more than triple the low. The problem with a 52-week low is knowing when the bottom has been reached, because a new low could be just around the corner.

Home Capital has favourable valuation indicators as it is trading at less than five times its earning and has a price-to-book ratio of under one. Under normal circumstances, this could be a great opportunity and present an excellent bargain. However, these aren't normal circumstances, as Home Capital has been embattled with corporate scandals relating to misleading and omitting information—scandals that have supposedly been long since resolved. However, the stigma of fraud, especially related to mortgages, might be difficult to overcome.

Warren Buffett is investing in the company, so it will be interesting to see if that inspires investors to follow suit. People like to follow Buffett, and why not given his wealth and success? But Buffett has made mistakes along the way too, but he has a lot more money to spare/risk than the average investor.

Dollarama Inc. (TSX:DOL) is perhaps the most interesting case. Since hitting its 52-week high of over $132, it has been stuck in the $120s. Trading at 31 times earnings and, over the past five years, trading this high has been the exception rather than the norm. How much of this is being propped up by management rather than investor confidence?

Dollarama's price-to-book value is staggering at over 392 times. The book value of the shares is only $0.31. A big reason for this is because the company has been buying shares back at well over book value, depleting its equity in the process.

Despite positive net income figures, the company's equity has not been increasing as a result. In Q1 the company had $84 million from continuing operations, yet it spent $189 million on share repurchases. In Q4 it was the same story: It had $508 million from operations but it spent $696 million on repurchasing shares.

The trouble with this is that Dollarama's equity is only $35 million. At a staggering 32 times equity, debt is significant. Not only does this price point suggest Dollarama is expected to grow, but it also needs to for its share price to stay at this level and for interest payments to not become an issue.

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