When Investors Have to Wait Patiently to “See the Money”

Description

At a price close to $2.75 per share, investors may only need spare change to purchase a share of **Storage Vault Canada Inc.** (TSX:SVI), but that does not translate to a “cheap” stock.

For investors who have followed the markets for a long time, it is easier to understand that the price investors pay for a share is actually not measured in a dollar amount; instead, it is measured as a multiple of earnings, revenues, or free cash flows. In the case of Storage Vault Canada, the multiple (and the stock) may actually be very expensive.

The company, which is still relatively new and unknown to many investors, is in the self-storage business (with a twist). Traditionally, it was up to the customer to find a vehicle to transport their belongings to the storage facility and then unload their things (which were just loaded into the vehicle) into the storage locker. That means having to move everything at least two times to fill up the storage locker.

The wonderful advantage offered by Storage Vault Canada is the ability to transport a self-storage locker to one’s residence and allow the customer to fill it up directly (one time only), avoiding having to transport everything to the storage locker themselves. Instead, the storage locker is brought to the consumer.

When evaluating the company’s financials, it is important to understand the process of raising funds to expand and how long it takes to be able to reap the benefits from raising new capital. Although the company has expanded on a number of occasions, earnings are projected to be no more than $0.10 per share for fiscal 2018. Essentially, the shares would trade at a price-to-earnings (P/E) multiple of 26 times if this happens.

Although investors may be happy with that multiple, the reality is that a storage company such as this one is typically traded based on the amount of free cash and dividends paid out to shareholders. Currently, the dividend yield is no more than a rounding error. The company pays a dividend of one penny per share which is evenly distributed across the four fiscal quarters of the year. Investorsreceive a dividend yield of less than 0.4%.

Although the company holds a lot of promise for the future, the projected cash flows are more difficult to project. In the past fiscal year, the company made revenues of $27.82 million but still lost more than $21 million for the year, while cash flow from operations (CFO) were positive $9.58 million. Moving forward to the first quarter of 2017, it's more of the same story. Investors saw an increase in revenues to more than $10 million, but the quarterly loss was comparable at $10.8 million. The good news was CFO was $5.2 million for the quarter.

While investors may be sitting on a lot of potential, the reality is that it will only be realized if the company successfully deploys the capital raised and is able to attain a critical mass of reoccurring revenues. Time will tell.

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