Why North West Company Inc. Fell 5.49% on Friday

Description

North West Company Inc. (TSX:NWC), one of the leading retailers to rural communities and urban neighbourhood markets in Canada, Alaska, the South Pacific, and the Caribbean, announced its second-quarter earnings results after the market closed on Thursday, and its stock responded by falling 5.49% in Friday's trading session. The stock now sits more than 11% below its 52-week high of $33.74 reached back in May, so let's take a closer look at the quarterly results and its fundamentals to determine if now is the time to buy.

Breaking down the Q2 results

Here's a quick breakdown of 10 of the most notable financial statistics from North West's three-month period ended on July 31, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
Sales – Canada	$293.67 million	$283.47 million	3.6%
Sales – International	$214.20 million	$177.10 million	20.9%
Total sales	$507.87 million	$460.57 million	10.3%
Gross profit	$152.56 million	$136.69 million	11.6%
Adjusted EBITDA	$46.92 million	$42.04 million	11.6%
Adjusted EBITDA margin	9.2%	9.1%	10 basis points
Net earnings	$23.26 million	$16.42 million	41.6%
Net earnings per diluted share	$0.46	$0.34	35.3%
Adjusted net earnings	$22.72 million	$19.61 million	15.9%
Cash flows provided by operating activities	$41.81 million	$43.40 million	(3.7%)

Should you buy on the dip?

It was a great quarter overall for North West, and it capped off a very strong first half of the year for the company, in which its sales increased 9.5% to $984.70 million, its adjusted EBITDA increased 11.1% to $87.11 million, and its adjusted net earnings increased 15.9% to $41.87 million. However, its second-quarter results came in mixed compared with analysts' expectations, with its EPS matching estimates and its sales falling short of the $512.48 million estimate, so I think that is what caused its stock to sell off.

With all of this being said, I think the decline in North West's stock was warranted, but I also think it represents a very attractive entry point for long-term investors for two fundamental reasons.

First, it's undervalued. North West's stock now trades at just 16.4 times fiscal 2017's estimated EPS of $1.82 and only 15.1 times fiscal 2018's estimated EPS of $1.98, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 19.2. These multiples are also inexpensive given its current double-digit percentage earnings-growth rate and its estimated 8.6% long-term earnings-growth rate.

Second, it has a great dividend. North West currently pays a quarterly dividend of $0.32 per share, equal to $1.28 per share annually, which gives it a lavish 4.3% yield. Investors must also note that the company's 3.2% dividend hike in March has it on track for 2017 to mark the sixth consecutive year in which it has raised its annual dividend payment, making it both a high-yield and dividend-growth play today.

With all of the information provided above in mind, I think all Foolish investors should strongly consider beginning to scale in to long-term positions in North West Company today.

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Date
2025/09/09
Date Created
2017/09/11

Author
jsolitro