Power Corporation of Canada and Leon’s Furniture Ltd.: 2 Different Businesses. 2 Great Stocks

Description

One year ago, almost to the day, I recommended that investors forego **BCE Inc.** (TSX:BCE)(NYSE:BCE), its juicy 4% dividend yield, and $62 share price and instead buy **Power Corporation of Canada** (TSX:POW) and **Leon’s Furniture Ltd.** (TSX:LNF) while leaving yourself a little spending money in the process.

“As I write this, Leon’s and Power Corporation are trading at $16.22 and $27.04, respectively. You can pick up these two stocks for approximately $43 or 30% less than BCE,” I wrote on September 13, 2016. “Essentially, I’m asking you to trade the security a mega-cap [BCE] provides for the growth offered by Leon’s combined with the value proposition that is Power Corporation. Together, you get more for less.”

At the time, I saw both stocks as undervalued compared to BCE. Leon’s was working to lower its cost structure to increase profits, and Power Corporation and its sister company, **Power Financial Corporation** (TSX:PWF), were investing in a future that would be less about mutual funds and more about ETFs.

A winter check-up

Four months later, I revisited the three stocks, concluding that Leon’s and Power were better stocks to buy than BCE.

“Since then [September], BCE’s stock has declined by 5% while Power Corporation and Leon’s stocks are up 12.3% and 11.2%, respectively, in the same period,” I wrote on January 17, 2017. “Yet you can still buy the two stocks for about $48.62 per share ($30.58 for POW and $18.04 for LNF), or 16.5% less than what you’d pay for BCE.”

In that article, I mentioned that Power Corporation had two attractive investments.

First, it has 77.4% majority ownership of Wealthsimple, a Toronto-based robo-advisor that’s pushing into the very competitive U.S. market; second, it has a 27.8% investment in China Asset Management Co. Ltd., one of the first mainland asset management companies approved by the Chinese Securities Regulatory Commission in 1998.

Power Corporation continues to do what’s necessary to grow its business.

As for Leon’s, it was continuing to chip away at expenses, while integrating the eight Sears Home stores whose leases it acquired in 2016. In its second quarter ended June 30, Leon’s managed to increase its revenue by 4.1% to $537.6 million. More importantly, it increased its operating margin in the quarter by 60 basis points to 4.8%.

Leon's continues to deliver healthy profits and growth in revenues in a challenging retail environment.

Where are we today?

Today, BCE shares trade for $58.60, POW shares trade for $30.69, and LNF trades for $17.95. The disparity between BCE and the other two hasn't changed from January — a big reason why all three are up less than 5% year to date.

Fool.ca's Joey Frenette doesn't see much hope for BCE stock in the quarters ahead due to rising interest rates, increased CRTC regulation, and new wireless competitors.

"BCE is an absolute behemoth, and slowed growth is inevitable from here," wrote Frenette August 8. "That means investors need to readjust their expectations going forward because the huge amount of stock price appreciation obtained in the last couple of years probably won't be in the cards over the next few years."

I couldn't agree more.

For this reason, I continue to believe that it's better to own Power Corporation and Leon's Furniture than BCE.

CATEGORY

1. Investing

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1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:LNF (Leon's Furniture Limited)
4. TSX:POW (Power Corporation of Canada)

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