Why You Want to Own Canada’s Most Unlikely Retail Success

Description

You wouldn’t think that you would mention Hurricane Irma and Maria in the same breath as a successful Canadian retailer, but that’s precisely the case for Winnipeg-based **North West Company Inc.** (TSX:NWC), whose Caribbean outlets have taken a beating in recent weeks.

“Our stores sustained minimal additional damage from Hurricane Maria, but the affected islands now face substantial challenges,” commented North West Company’s president & CEO Edward Kennedy. “Our associates continue to act with exemplary dedication and courage amidst what has now been over two weeks of complete upheaval to their lives and those of their neighbours. I am very proud of their actions.”

North West Company’s northern outposts are known to have severe climates; it turns out that its southern ones do as well.

Nonetheless, it’s a retailer that’s been in business in one form or another since 1789, officially becoming North West Company in 1990, three years after 415 employees acquired the northern stores of the **Hudson Bay Company**.

A wide moat

North West Company is not on the radar of most Canadian investors, but it should be because there’s a unique set of skills required for getting products to remote areas, providing a wide moat against potential competition.

“That [remoteness] insulates them from threats such as **Amazon** from the get-go,” Lutz Zeitler, portfolio manager at BMO Global Asset Management, recently stated in the *National Post*. “Amazon would be losing money on delivering goods up there, and they’d unlikely be able to compete on price because they don’t have the scale North West does in those remote areas.”

To better handle the logistical nightmare of getting goods to remote parts of northern Ontario and other parts of the north where it has stores, North West Company acquired Thunder Bay's North Star Air Ltd. for $45 million in June, which includes $14 million in working capital to expand the 11 aircraft it currently operates.

The acquisition is immediately accretive to EBITDA earnings. More importantly, however, it allows North West Company to bring some of its third-party shipping needs in-house, saving it $2 million in carrier cost increases.

What's changed in the past 17 months?

In May 2016, I suggested that North West Company stock could double over the next 24-36 months. Almost halfway there, things haven't quite worked out as predicted; it has a total return of 8.8% for the past 17 months, which means after you back out the 4.2% dividend yield, North West Company has appreciated by just 4.6%.

Growth investors probably won't be intrigued by North West Company, but income and value investors still ought to consider it because it was yielding 4.2% in May 2016 when I last wrote about the company; it's still yielding 4.2%, which is a nice reward for patient investors.

North West Company's same-store sales in the first six months of 2017, ended July 31, grew 1.8%, and its adjusted EBITDA grew 11.1%, both of which occurred before its acquisition of North Star Air. Given what an airline will do for logistics, I'd say the future is one where the glass is half full rather than half empty.

It's not a flashy stock, but it's one that should continue to deliver solid returns.

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Date
2025/09/28
Date Created
2017/10/03
Author
washworth