



## Consensus Analyst Rating Is for This Troubled Stock to Outperform the TSX This Year, Even After a 24% Drop in a Day

### Description

North America's largest publicly traded vehicle fleet-management firm **Element Fleet Management Corp.** ([TSX:EFN](#)) lost about 24.44% of its equity value in a day on March 15 after reporting a weaker earnings-growth outlook to trade at less than half its book value, but two top analysts rated the stock a strong outperform candidate for 2018.

The company has become an intriguing value play today and could make for a good contrarian pick at current trading levels for those willing to take on the restructuring execution risk.

### What's troubling the stock?

Element Fleet Management's (EFN) core portfolio has generated a slower-than-desired core revenue-growth rate over the past year, with fleet management net revenues growing a modest 0.35% year on year, while the firm's operating expenses continued to grow for the time being. The company is anticipating charging material credit losses related to substantial outstanding loans to a distressed joint venture, 19th Capital, to its balance sheet due to a new accounting standard.

The company is undergoing a restructuring exercise that may take the whole of this year to implement, yet it does not have a permanent CEO at the moment.

Investors are concerned.

### Could the stock offer great value at current trading levels?

Analysts at BMO Capital and those at Raymond James reportedly made bullish calls on EFN stock on March 16 and reiterated their outperform rating on the stock, while those at Credit Suisse wish to remain on the sidelines after registering their concerns on the firm's financial outlook.

BMO Capital analysts believe that EFN's underlying economic fundamentals remain strong, while putting some faith in the new leadership in achieving its stated objective of a 7-9% operating earnings growth in the medium to long term, and they noted that EFN's strong 8% dividend yield is significantly

supported by the firm's strong free cash flow generating capacity and should provide valuation support for the stock.

Raymond James analyst Brenna Phelan maintained her outperform rating on EFN stock, noting the firm's "steady and still sticky corporate vehicle leasing business" and the company's deployment of new growing technologies will continue driving tremendous value for the firm, even after some customer losses in the second half of 2017.

That said, Credit Suisse analysts aren't that overly bullish on the stock, noting the current write-down risk in EFN's non-core portfolio and the potential balance sheet and leverage implications as well as the fact that EFN currently has no permanent CEO.

The risk of further write-downs at 19th Capital is notably high. EFN has nearly \$780 million in outstanding loans to the troubled joint venture, and material credit loss allowances may be recognized in EFN's financials in the next quarterly financial results.

According to Credit Suisse analysts, EFN may either continue to incur "manageable charges" in its non-core portfolio while using cash flows from the core portfolio to improve leverage through building equity and thus successfully survive a potential crisis, or the charges may accelerate and cause EFN to reach its critical debt covenants limits, with dire consequences for the firm, which may result in a dilutive equity raise to repair the balance sheet.

### Investor takeaway

EFN stock is heavily beaten down, and at current \$4 a share trading levels, the stock trades at a 50% discount to its \$8.04 book value, offering a good margin of safety.

Moreover, the forward dividend yield, at 7.5%, is well supported by operating cash flows and could significantly boost the total return for contrarian investors. While analysts have lowered their earnings forecasts on the stock for this year, the consensus analyst price target on EFN common shares, at \$6.31, gives the stock a potential 58% upside in capital gains this year.

A small contrarian bet on the stock could richly reward value investors in the long term. Investors should closely watch this stock for positive recovery signs, as management implements recovery plans throughout the year and take note of the fact that EFN's stock has [been trending lower of late](#) and could remain undervalued if the recovery plans do not work out as planned.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:EFN (Element Fleet Management Corp.)

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**Date**

2025/08/16

**Date Created**

2018/03/26

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