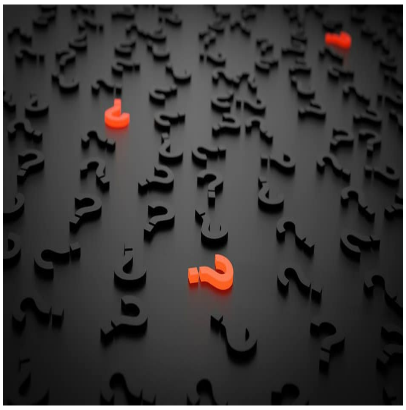

2 Stocks, 1 Family: Which Is the Better Buy?

Description

Have you ever owned a stock that's separated into two separate, publicly traded companies?

Corporate splits are done for all kinds of reasons. They generally fall into three categories.

First, there are operating segments that no longer fit into the parent company's game plan. Then there are situations in which two equally large units of a business would be able to attract cheaper capital if they were separate independent companies while also providing greater focus on growth. Those are the really attractive scenarios. Finally, there are situations in which investors are having a hard time valuing an entire business and a split would remedy that.

FirstService Corp. (TSX:FSV)(NASDAQ:FSV) and **Colliers International Group Inc.** (TSX:CIGI)(NASDAQ:CIGI) fit into the second category.

The FirstService advantage

Founded by Jay Hennick in 1989, FirstService immediately purchased College Pro Painters, a franchise operation that launched with college students making money during the summer months painting houses. From there, College Pro began gobbling up franchise operations and other businesses that fit the FirstService business model.

In 1993, FirstService went public on the TSX; two years later, the company listed on the **Nasdaq Stock Market**. By 2007, it had hit $1 billion in annual revenue. In 2015, Hennick, who controls more than 40% of the voting shares of both companies, decided it was time for FirstService and Colliers International to go their separate ways.

As FirstService prepared to split itself in half, it gave four reasons for doing so. First, a split would allow both operating segments to more intensely focus on its businesses and customers while also pursuing separate value-creation strategies. Second, it would allow both businesses to use the appropriate capital allocation levers to reward shareholders and keep management properly aligned with those shareholders. Third, by attracting the right type of investors for each business while also making it easier for those investors to value each company compared with their peers, both stocks would better reflect each business's true intrinsic value. Fourth, it would provide distinctly separate investment opportunities.

How the split is working out

If you owned 100 shares of FirstService prior to its June 1, 2015, separation, you would have had an investment of approximately $4,795. The split saw Colliers' shareholders carry 58.6% of FirstService's value and the "new" FirstService (College Pro Painters, etc.) got the rest.

Today, Collier shares are worth $5,473 and the FirstService shares are worth $3,752, for a 25% annualized total return since splitting in two.

So, I'd say things worked out pretty well for Jay Hennick and the rest of the FirstService shareholders.

Which is the better buy three years later?

Last May, I favoured Colliers International because it had a slightly cheaper valuation. Since then, it is up 32% compared to 7% for FirstService.

Recently, portfolio manager Paul Harris appeared on BNN Bloomberg's *Top Picks* and recommended FirstService because it still has plenty of room to grow in the U.S. and trades at 28 times 2019 earnings.

On May 1, Colliers International announced strong Q1 2018 earnings, with year over year revenue growth of 18.7% and adjusted earnings per share growth of 25.0%.

Jay Hennick runs Colliers, while former FirstService CFO Scott Patterson runs the "new" FirstService. Both are very good executives, but Hennick is the founder.

I'm just as conflicted about which stock to buy as I was last May, but I'd say that Colliers International is the better buy — if only by a hair.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:FSV (FirstService Corporation)
2. TSX:FSV (FirstService Corporation)

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Category

1. Investing

Date
2025/08/18
Date Created
2018/05/07
Author
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