



3 Reasons to Own This Small-Cap Answer to Leon's Furniture Ltd.

Description

Quebec residents in need of a new sofa, refrigerator, or computer are just as likely to head to Brault & Martineau (B&M) to purchase their big-ticket consumer goods as they are **Leon's Furniture Ltd.** ([TSX:LNF](#)), **Best Buy Co. Inc.** ([NYSE:BBY](#)), or one of the other big-box retailers catering to this kind of purchase.

I must admit, I didn't know much about B&M's parent company **Groupe BMTC Inc.** ([TSX:GBT](#)) before the *Globe and Mail* highlighted the stock recently. Students of finance professor George Athanassakos's value-investing class at the Richard Ivey School of Business picked GBT as one of their stock holdings for the next year.

BMTC is one of those small-cap public companies where you really have to work hard to find out any information about it. I've tried to find an investor relations website to no avail.

I normally don't like to go to SEDAR to find financial information about TSX stocks — it has a silly user identification procedure to ensure humans are asking for the information — but in this instance, I have no choice.

While there, I found three reasons to own its stock.

2017 was a decent year

Revenue and net income in the past year grew 8.5% and 12.8%, respectively, to \$810.1 million and \$49.3 million. That's reasonably healthy growth.

However, the company changed its fiscal year end to January 31 from December 31, which added one month of sales to the top line in fiscal 2018. Take that out, and revenues increased by just 1% over the past year, as did same-store sales.

Before you turn the page, consider that net earnings in the extra month of January were only \$167,000, which means earnings on a comparable 12-month basis still increased by 12.3% — only 50 basis points lower.

Remember, earnings are the main driver of share prices, not sales, so from this perspective, BMTC is doing just fine.

Real estate

BMTC owns a significant number of its stores and distribution centres in the province of Quebec. By my count, it owns 21 stores, one liquidation centre, and two distribution centres totaling more than two million square feet.

It has leases for eight stores, two liquidation centres, and one repair shop totaling 472,000 square feet with lease payments of \$32 million over the next five years at an approximate cost of \$14 per square foot on an annual basis. Extrapolate that by the more than two million square feet of owned space, and you're talking about close to \$30 million in annual savings on lease payments.

That's a huge advantage over its competition.

Then consider that BMTC sold its Repentigny store in February 2018 for \$9 million because its location no longer made sense for the company. The sale generated an after-tax profit of \$4.5 million. Let's assume the property was carried on the books for \$6 million. It's fair to say that its entire real estate portfolio is undervalued by at least one-third on its balance sheet.

That's a significant future benefit for all shareholders.

Cash and investments

At the end of 2018, BMTC had cash and investments of \$90.8 million, which works out to \$2.59 per share. Back that out of its share price of \$16, and you get a stock that's trading at less than 10 times earnings.

The Ivey value-investing students mentioned at the beginning estimated the company's intrinsic value to be \$23.70 a share. I'd love to know if they took into account the potential value of BMTC's real estate. I estimate it could be worth as much as \$8 a share.

Is Groupe BMTC a value play like the students suggest it is? You'd better believe it.

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