



Tricon Capital Group Inc. (TSX:TCN) Provides Growth AND Value

Description

Are you familiar with the Relative Strength Index (RSI)?

It's a momentum indicator developed by technical analyst expert Welles Wilder that measures the velocity and magnitude of a stock's price movement.

The RSI indicator ranges from zero to 100. A stock trading below 30 is said to be oversold; at above 70, it's said to be overbought.

Tricon Capital Group Inc. ([TSX:TCN](#)), one of my [favourite](#) TSX stocks, was featured June 1 in the *Globe and Mail's* weekly look at stocks overbought and oversold. At the time it had an RSI of 75, putting it in the overbought camp with heavily followed names like **Great Canadian Gaming Corp.** and **Bombardier, Inc.**

While I've never been a big technical analyst guy, it certainly made me sit up and take notice.

Is Tricon overbought?

Well, it is if you believe the charts don't lie.

However, for everyone else who doesn't know the difference between Bollinger Bands and the Money Flow Index, I'm here to tell you why I feel the real estate asset manager is both a growth and a value stock.

Why is it a growth stock?

As I stated in the beginning, I believe that Tricon is one of the best stocks on the TSX.

In March, when it was trading above \$10, I'd [recommended](#) investors buy the 2.7% yield for three reasons, the most critical being its diversified revenue streams. It's definitely not a one-trick pony, although its Tricon American Homes division is certainly a big reason it's getting more attention from investors these days.

Caldwell Investment Management portfolio manager William Chin recently had this to say about the company on BNN Bloomberg's Top Picks segment:

"Tricon has a good formula in place in which they're essentially institutionalizing the SFR [single family housing rentals] market: they buy a single-family house in a growing market, complete some minor renovations and upgrades, increase the rent accordingly, centralize the maintenance costs and often get the added benefit of housing price appreciation," Chin said June 5, while appearing on the show. "Tricon recently made a large and accretive acquisition in the SFR segment (Silver Bay Realty), which significantly grows its earnings power."

It's possible it will be able to do the same thing here in Canada if the housing market in places like Vancouver and Toronto ever collapses, like they did in 2007-2010 in the U.S.

Tricon itself recently said that 16 million American households rent single-family homes — a number that's bigger than the entire Canadian housing market.

With that kind of growth ahead of it, it's unlikely that it will bother with Canada, even if the unthinkable were to happen.

Why is it a value stock?

To answer this question, I'll lean on Fool contributor Kay Ng for advice. She's a value investor to the core and recently [discussed](#) the reasons why Tricon is good value at the moment.

Ng makes two really good points about the company.

The first has less to do with its value merits and everything to do about investing with asset managers who eat their own cooking.

"About 75% of its assets under management are the company's principal investments and co-investments funded with its balance sheet, which means about 25% of the assets under management are from third-party investors, such as retail investors," Ng stated June 5.

Do you know what other respected real estate asset manager does this?

Brookfield Asset Management Inc., one of the other four names on my list of the five best TSX stocks, putting it in very good company.

The second point she makes about value is that analysts have a 12-month price target of \$14 on its stock, about 28% higher than where it's currently trading.

The same analysts have a 2018 earnings-per-share estimate of \$1.13, which means it's currently trading at 7.4 times earnings. By comparison, Brookfield is trading around 18 times earnings.

Like Ng, I see very good value in Tricon stock.

By owning Tricon, you get growth, value, and a 2.6% yield — the best of both worlds.

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