



## Is This Family Controlled Stock Ready to Take Flight?

### Description

A couple of recent news stories about **Onex Corporation** ([TSX:ONEX](#)) has renewed my enthusiasm for the Toronto-based private-equity firm despite the fact its stock has lost 4% so far in 2018.

The first story appeared in *The Globe and Mail* September 7, highlighting the fact that Onex stock had dropped below 30 on the **Relative Strength Index**, an indication that its stock could be oversold.

I originally [recommended](#) Onex stock in May 2016 because I liked the fact that it focuses on two long-term goals to grow its business: it looks to grow its net asset value per share (NAV/share) by 15% annually while also increasing its fee-generating assets by 10% per annum, using the power of compounding to do the heavy lifting.

### How has it performed over the past five years?

It has grown NAV/share by 8% compounded annually, which is well below its desired goal of 15% per year. In 2017, it managed to deliver 11% growth. However, over the same five-year period, its stock price rose by 15% compounded annually — double the growth rate of its assets.

That's a healthy return for investors.

Regarding fee-generating assets, the company has grown them by 18% compounded annually, 300 basis points clear of its 15% goal and significantly higher than the **TSX Composite Index**.

All things considered, investors haven't done too badly from Onex's asset management.

### It's a family affair

The second story that's caught my attention is one about family-controlled firms that appeared in *The Globe and Mail* September 9.

The article suggested that companies in which the founder held at least 10% of the votes or a non-founder or entity held 33% of the votes tend to outperform companies without this type of ownership

concentration.

“To me, the most important factor here is the tenure of management of family-owned companies,” said Serge Godin, Founder and Executive Chairman of Montreal-based **CGI Inc.** “When you have 13 years [the average experience of the 100 largest U.S. family-controlled businesses], those people have much more time to master their environment, to master their competition.”

Onex CEO and founder Gerry Schwartz and his family hold 65% of the company’s voting shares, meeting the criteria for inclusion in the **NBC Canadian Family Index**, a group of 43 **S&P/TSX Composite Index** stocks equally weighted and rebalanced quarterly.

Since June 2005, the Index has delivered annualized growth of 9.0%, 230 basis points higher than the S&P/TSX Composite Index.

Interestingly, the Canadian Family Index has a much higher weighting of consumer staples, consumer discretionary, and materials stocks than the TSX; it also has much bigger representation from mid-cap stocks, the sweet spot when it comes to outperformance over the long term.

### What’s this got to do with Onex?

Although Onex stock has severely underperformed **Brookfield Asset Management** — Canada’s biggest alternative asset manager — over the past five years, it has almost US\$9 billion in [uncalled capital](#) ready to deploy when the opportunities arise. That’s nearly as much as the company’s entire market cap.

Onex might not be the global player that Brookfield is, but it’s certainly a big deal in Canada and the U.S.

While Onex stock is in an oversold position, it makes a lot of sense to consider buying this underperformer because it won’t stay this way for very long

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1. TSX:ONEX (Onex Corporation)

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