



Value Investors: This Stock Is Absurdly Cheap!

Description

A favourite investing strategy of mine involves buying companies at a discount to their tangible net equity value (NEV) that are also buying back their own shares. To see why this is a great strategy, let's consider a company ABC with one million shares priced at \$10 dollar a share. Let's say this company owns \$12 million of tangible assets (cash, shares of other companies, and real estate) without any debt.

$(\$12,000,000 \text{ net assets}) / (1,000,000 \text{ shares}) = \$12 \text{ of assets per share}$

This is already sounding like a great company to invest in, as you can buy \$12 worth of assets for just \$10, but let's attempt to predict the result when that company uses its own money to buy back its shares. Let's say the company purchases 10% of its shares. That means purchasing 100,000 shares at \$10 per share for a net cost of \$1,000,000.

$(\$11,000,000 \text{ net assets}) / (900,000 \text{ shares}) = \$12.22 \text{ of assets per share}$

As shown, the net assets reduced by \$1,000,000 to pay for the shares, and the total number of shares reduced by 100,000. The result of which is that the remaining shares now own \$12.22 of assets per share! There has been a 1.8% increase in remaining share value. The company utilizes its own money to purchase shares, which are worth \$12 each for a cost of only \$10, resulting in an immediate profit for the remaining shareowners.

Companies that are in this position are rare, but one of them is **Morguard** ([TSX:MRC](#)).

Morguard is a real estate holding company with \$21.1 billion assets under management. It directly owns and invests in real estate in North America. Based on its 2019 first-quarter financial statements, it ended Q1 2019 with \$304.99 per share of net assets. As of May 15, the price of the shares is \$190.66, letting you buy the shares at a 37% discount to their net asset value.

$((\text{NEV per share}) - (\text{price/share})) / (\text{NEV per share}) = \text{discount}$

$(\$304.99 - \$190.66) / \$304.99 = 37.49\%$

It actually is even more attractive when you consider the company's share-buyback program. We can look at SEDAR filings and see that the company has retired shares at a price in the \$180's per share, representing an average discount well above 30%.

The discount in the stock price could be attributed to Morguard's exposure to Alberta and headwinds with the advent of **Amazon** and e-commerce. Morguard has equity exposure in two subsidiaries: approximately 33 million shares of **Morguard Real Estate Investment Trust** and seven million shares of **Morguard North American Residential REIT**.

If the company keeps buying back its shares, it should be an excellent investment over the long term, and if the share discount to the net asset value decreases from the current 37.5% to a more acceptable 10%, the shares could be sold at a healthy profit or help for the long term in the stewardship of Morguard's enterprising CEO, Kuldip Rai Sahi.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRC (Morguard Corporation)

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