



## Now Is the Time to Buy This Stock

### Description

**BMTC** ([TSX:GBT](#)) is a [low-cost furniture retailer](#) in Quebec operating under the “Brault & Martineau” trade name throughout Quebec. The company has reported phenomenal returns in the last 20 years under the leadership of former CEO Yves Des Groseillers. In the boring furniture business, how did this company achieve such outperformance relative to the S&P TSX?

Typically, when [furniture companies](#) do well, they expand to other geographical regions and open more stores. However, BMTC has not engaged in significant store expansion, and most of the company’s business has been in the Quebec region. So, revenue growth does not appear to be the driver behind the outperformance.

Furniture retailers have been out of favour over the last two decades and often trade at lower multiples relative to the TSX. BMTC traded at eight times earnings in 1998 and now trades at 11 times earnings. It does not appear that multiple expansion has contributed to the stock’s excellent performance.

Great furniture retailers control costs very well to ensure earnings grow faster than revenues. In 1998, BMTC made about \$19 million in earnings at a 3% margin and was underperforming in comparison to other furniture retailers. By 2019, BMTC was earning \$45 million at an 8% operating margin. This appears to have had a slight impact on BMTC’s financial performance.

Historically, BMTC has always operated with minimal debt and has not made any major acquisitions. The company has preferred to pay dividends and engage in opportunistic buybacks. BMTC did not incur any substantial debt during the decade and used organically generated cash flow to invest in the business and open more stores. Further, BMTC did not make any big acquisitions; instead, the company has paid an average dividend of 3% over the last 20 years.

The real reason for outperformance is the company's buybacks. Most blue-chip companies engage in regular buybacks irrespective of price. However, BMTC has bought back shares aggressively when the stock has traded cheap. At other times, BMTC has stopped buybacks altogether. The overall result is, the company has managed to reduce share count by over 75% over the last 20 years, which is an incredible achievement. This fact alone has contributed richly to the company's outsized returns.

The importance of smart capital allocators cannot be overstated enough. Much of the investment community has been fixated on engaging in buybacks irrespective of price and that often incur significant debt in the process. BMTC, however, was very aware of the intrinsic value of its own shares and only bought back stock when it traded at a wide discount to intrinsic value.

At other times, the company held cash for future opportunities. BMTC did not make expensive acquisitions to grow the company for the sake of growth. The company's largest shareholders are the Des Groseillers family, who run the company for the long term. Recently, BMTC has been accumulating substantial amounts on prime Montreal real estate, which is expected to appreciate significantly over the next decade.

Expect exciting things from BMTC in the future!

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