Here’s Why This Doomed Stock Could Bolt 68% Higher

Description

When Jeff Bezos launched his e-commerce platform in 1998, bookstores were dead. A few years later, Steve Jobs launched iTunes and killed the physical music disc industry.

Since then, Canada’s largest book and music retailer **Indigo Books & Music** (TSX:IDG) has been in a gradual decline.

The stock has plummeted from around $35 in 1999 to just under $8 today, eroding two-thirds of its value over two decades. It’s therefore surprising that it’s still around.

At this juncture. company’s planned expansion to the United States and its renewed focus on creating experiential platforms may not be enough to save it.

Nonetheless, the business is still worth something. The vast network of stores and physical outlets spread across the country has retained their value, even as the business model lost its sheen.

According to Indigo’s latest annual report, the company owns and manages 89 superstores under the *Chapters* and *Indigo banners* and 115 small format store under the *Coles, Indigospirit* and *The Book Company* banners.

The company also retains a surprising amount of the cash it accumulated during better times. Cash and cash equivalents were reported at $128.44 million in a recent report.

The underlying tangible assets are estimated to be worth $13.64 per share, which is nearly 68% higher than the entire company’s market value. The company’s cash and cash equivalents alone are worth a jaw-dropping 58.4% of the stock price.

None of this means anything if the business continues as a going concern. In a world in which music can be streamed for free and books can be downloaded in 100 different languages simultaneously, the Indigo business model is obsolete.

That said, the company’s shareholders can keep their hopes up for a potential catalyst that unlocks value.

In an article published last month, I mentioned that New York-based money manager Paul Singer’s gigantic hedge fund Elliott Management acquired Barnes & Noble for $683 million.

The deal was worth a lot more than the company’s market value at the time. Singer, meanwhile, may sell off the underlying assets (which were also worth more than the market price) and still come out ahead.

It’s not hard to imagine a similar deal for Indigo. If a savvy hedge fund, pension fund, or family office buys the company for just its book value, shareholders could be in for a massive upswing.

I’ll admit that this investment thesis is either too optimistic or speculative. There are simply too many variables that could change the outcome for Indigo’s shareholders.

For savvy investors with an appetite for risk, however, Indigo may serve as a better bet than Bitcoin or an overvalued stock with too much debt on the books.

Bottom line

Some companies are worth more dead than alive. Stocks that trade below their book value are the type of bargain stocks that investors like Warren Buffett built their entire career on. These stocks have limited downside — and considerable upside.

I believe Indigo is one such stock. The book and music retail business has been dead for a while, but the properties and cash the company retains will always be worth something.

At this point, Indigo’s stock is worth less than its tangible value and could serve as a contrarian bet for savvy investors (institutional or otherwise).

CATEGORY

1. Investing

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1. TSX:IDG (Indigo Books & Music)

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1. Investing

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vraisinghani