



1 High Dividend Rural Retail Stock for Defensive Investors

Description

Seth Godin's book *The Dip* talks about being the best option available in your customer's world. For instance, if you have a hernia, you want a surgeon in your part of town who is highly recommended by friends and family and who fits in your medical budget.

That is your (customer's) world and you want the best possible option. If you're an investor looking for a good company to park your funds, you should be hunting for companies that are the best in their customers' worlds.

The North West Company Inc ([TSX:NWC](#)) is a perfect match for this category. NWC is a leading retailer to rural communities and urban neighborhood markets in Northern Canada, Western Canada, rural Alaska, the South Pacific islands and the Caribbean.

It operates in markets that companies like **Loblaw** and **Metro** don't venture into. It doesn't face much competition and its services encompass everything that rural communities need.

An overview

It's safe to say that NWC has cracked the needs of its customers. One of the world's oldest retail enterprises, quite a few of its stores in Northern Canada and Alaska have been operational for over 200 years.

A typical NWC store offers food, family apparel, housewares, appliances, outdoor products and services such as post offices, income tax return preparation, quick-service prepared food, commercial business sales, money transfers, and cheque cashing. NWC is one of the safest companies around.

NWC's sales in the second quarter of 2019 increased by 4.7% to \$527.3 million compared to the second quarter last year. Second-quarter net earnings decreased \$0.7 million or 3.7% to \$17.9 million. NWC has approved a quarterly dividend of \$0.33 per share to its shareholders, up from \$0.29 in 2015.

The company's sales in the first six months of 2019 crossed the \$1 billion mark. NWC's business

follows a seasonal pattern where historically the first-quarter sales are the lowest and the fourth quarter sales are the highest, reflecting consumer holiday buying patterns.

According to previous years' analysis, the year is only going to get better for NWC. Strong earnings in the company's northern Canada and Alaska stores and earnings gains in North Star Air were offset by poor performance in NWC's Giant Tiger store division.

With a forward dividend yield of 4.7%, NWC is a safe bet to make for investors looking for a steady dividend income. The stock has moved sideways in the last one year, serving as a good buying opportunity for investors.

The stock also seems undervalued after considering its forward price to earnings multiple of 15.6 and its 5-year earnings estimates of 13.5%.

While the company hasn't set the stock markets on fire, its sales [have been growing at 12% for the last three years](#) and profits have risen 24% in this period. Since January 2019, NWC owns North Star Air, and its retail air cargo business has been doing well. This vertical integration by the company could be a robust addition to the company's portfolio.

Five out of seven analysts in the last quarter have a "hold" rating on the stock and the remaining two recommend a "buy." They have an average target price of \$31, indicating an upside potential of 10% from the current price.

NWC is a good defensive option to add to your stock portfolio.

CATEGORY

1. Investing

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1. TSX:NWC (The North West Company Inc.)

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