



TFSA Investor: Buy This Stock at a Huge Discount

Description

Canadian General Investments Ltd ([TSX:CGI](#)) is a [Canadian closed-end investment fund](#), which is managed by Morgan Meighen & Associates Limited. The company's investment objective is to provide better than average returns to investors by investing in medium- to long-term Canadian investments.

The company's strategy involves intelligent security selection and recognition of capital gains or losses. The investment portfolio entails companies in several sectors such as financials, consumer discretionary, energy, industrials, materials, information technology, telecommunication services, consumer staples, utilities and health care.

The company is thinly traded and the stock has a market capitalization of 494 million. Incredibly, the stock trades at a 34% discount to net asset value, thereby indicating potential undervaluation and a large margin of safety. At current prices, the stock looks like a great bargain.

Long-term shareholders have benefited from investing in Canadian General Investments common shares. A \$10,000 investment in Canadian General Investments would have grown to over \$85,000 over the 25-year period ended December 31, 2018.

This equates to a compound annual average growth rate of 9.0%. By comparison, a \$10,000 investment in the benchmark **S&P/TSX Composite Index** would have grown to nearly \$60,000 or a compound average annual growth rate of 7.4%.

The manager, Morgan Meighen & Associates Limited (MMA), utilizes a [bottom-up investment strategy](#) in an effort to achieve the investment goal of Canadian General Investments.

With this type of investment strategy, the manager first seeks individual companies with attractive investment potential, then proceeds to consider the larger industry, economic and global trends affecting those companies.

This investment style allows for industry weightings that can differ from those of the benchmark, the **S&P/TSX Composite Index**.

The company has a \$75 million non-revolving three-year fixed rate credit facility that bears interest at 2.28%. It has remained fully drawn since inception of the facility in 2016, and this borrowing represented 12.5% of Canadian General Investment's net assets.

The borrowed money was initially used to redeem \$75 million cumulative, redeemable Class A preference shares, Series 3, issued in June 2016. The funds are now used to increase the size of the portfolio as part of a margin strategy in an effort to increase returns to common shareholders.

As a corporate entity, Canadian General Investments is subject to tax on taxable income – primarily realized gains on the sale of investments at an effective rate of approximately 21%.

As a result of the company's investment corporation status under Canadian tax law, Canadian General Investment can recover taxes paid or payable on the realized taxable capital gains through the payment of capital gains dividends to stockholders.

To the extent that taxes paid or payable on taxable income and capital gains in a year are greater than taxes recovered on the payment of capital gains dividends, this could decrease net assets of the fund.

In summary, the large discount to net asset value presents a wonderful opportunity to buy shares of Canadian General Investments and get exposed to the Canadian stock market at an attractive valuation.

Shareholders of Canadian General Investments have a high chance of outperforming the TSX benchmark index over the long-term due to the leverage employed by the company at attractive preferred interest rates.

CATEGORY

1. Investing

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1. dividend

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1. TSX:CGI (Canadian General Investments, Limited)

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