



Canada Revenue Agency: This Value Stock's Dividends Are Eligible for a Dividend Tax Credit

Description

Melcor Developments ([TSX:MRD](#)) operates as a [real estate development company](#) in North America, primarily Alberta. The company is headquartered in Edmonton.

The company has five divisions: Community Development, Property Development, Investment Property, **Melcor Real Estate Investment Trust**, and Recreational Property. Melcor operates mixed-use residential communities, business and industrial parks, office buildings, retail commercial centres, and golf courses.

The company has \$2.02 billion in assets and owns over 10,000 acres of land, which it carries at cost on the balance sheet — that is, an average of \$37,000 per acre. Fair value is estimated to be significantly higher. The company owns [three 18-hole championship golf courses](#) and was founded in 1923.

The company is extremely cheap and has a price-to-earnings ratio of 7.05, price-to-book ratio of 0.37, and market capitalization of \$405 million. Debt is low, and the company has a debt-to-equity ratio of 0.59. The company has excellent performance metrics with an operating margin of 38.21% and a return on equity of 4.97%.

The company acquires raw land, operates a portfolio of properties, and focuses on capital appreciation of owned properties through property improvements. In addition to extending the value of Melcor's asset base, the company's diversified operating divisions help the company navigate real estate cycles (both general market conditions and the seasonality associated with construction and development) and diversify the revenue base.

The company's revenues increased by 4% in 2018 to \$267 million compared with revenue of \$258 million in the prior year. Net income for the year increased by 67% to \$64 million compared with income of \$39 million in 2017. Shareholder equity also increased by 6%, totaling \$1,068 million at year end.

The company's results in western Canada were affected by the negative impact of low energy prices, lack of pipelines to get product to world markets, onerous regulatory and consultation processes, increased taxation, including B.C.'s speculation tax, and declining foreign investment.

Melcor believes that Canada has become an increasingly frustrating and challenging environment in which to conduct business. As a result, Melcor made a strategic decision to expand operations to the United States and made property investments in Texas, Arizona, and Colorado to diversify operations. Melcor plans to remain focused on pursuing investment and expansion opportunities in the United States until Canada's political and business landscape changes and improves.

Melcor is looking for opportunities to improve efficiency in property operations and expects to grow the company's income-producing property portfolio. Melcor is looking to control costs, move existing inventory and, opportunistically, build real estate positions in empty land lots. The company has over 95 years of experience working in Alberta's cyclical economy and has navigated through several economic downturns.

Melcor has high-quality portfolio of assets — raw land, developed land inventory (residential lots and acres for multi-family and commercial development), income-producing properties, and championship golf courses. This places the company in a solid position to weather and take advantage of the economic downturn in Alberta. The company is one of the cheapest stocks on the Toronto Stock Exchange and has deployed several diversification strategies that will reduce future reliance on Alberta.

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