



## Now Is the Time to Buy the Best Dividend Stock in North America

### Description

**Cervus Equipment** (TSX:CERV) owns and [operates equipment dealerships](#), representing leading original equipment manufacturers. The company's customers operate businesses corresponding with agriculture, transportation, and industrial segments.

The company has a price-to-earnings ratio of 23.81, a price-to-book ratio of 0.53 and market capitalization of \$121 million. Low-cost debt is aggressively used at Cervus as evidenced by a debt-to-equity ratio of 1.49. The company has excellent performance metrics with an operating margin of 1.53% and a return on equity of 2.22%.

Cervus's agricultural equipment segment consists of interests in 36 John Deere dealership locations with 15 in Alberta, five in Saskatchewan, one in British Columbia, nine in New Zealand, and six in Australia. The transportation segment consists of 19 dealership locations with four Peterbilt truck dealerships and one collision centre operating in Saskatchewan, 12 Peterbilt truck dealerships operating in Ontario, and two parts and service locations operating in Ontario. The industrial equipment segment consists of eight material handling and forklift equipment dealership locations with five operating in Alberta, two in Saskatchewan, and one in Manitoba.

The company markets and sell equipment solutions appropriate for [customer applications in the farming](#), commercial transport, warehousing, and material handling industries. Cervus also focuses on delivering the servicing, parts, rentals, training, and ancillary services in support of the equipment. The company's customers value the ability of Cervus's dealerships to provide best-in-class equipment and operational uptime through efficient product support, thereby enhancing business profitability.

Customer relationships are built and maintained through this life cycle of equipment sales and product support. In the company's whole goods departments, stocking appropriate inventory levels to meet market demand is balanced by maintaining the sale of the inventory that Cervus carries. Further, in the agricultural segment, the company accepts trades of used equipment as partial payment on new equipment.

The company's third-quarter results reflected the continued headwinds facing Western Canadian

agriculture. Despite these short-term realities, the company achieved increased parts and service revenues and delivered a strong performance in reducing used agriculture equipment inventory. Used agriculture equipment levels across Western Canadian dealers remain in excess of market demand. Dealers were incurring inventory carrying costs of interest and obsolescence, while the ability to accept additional equipment trades is also constrained. Ultimately, these near-term barriers are relieved by reducing inventory levels to align with market demand.

The company has taken action, reducing used agriculture equipment inventory by \$33 million, or 18% compared to the second quarter of 2019. Inventory write-downs associated with this aggressive reduction increased \$6.5 million in the quarter and \$4.9 million year to date compared to 2018. These actions have enabled progression towards an appropriate level of used inventory more in line with market demand, illustrated by the company's comparatively strong inventory turn ratios at 3.87 for new agriculture equipment and 1.65 for used agriculture equipment.

By re-balancing inventory, the company anticipates a strong balance sheet with capacity for both new and used equipment sales and improved profit margins in future years at sustainable levels, while limiting prolonged exposure to inventory carrying costs and valuation risk.

Overall, the agricultural industry has a bright future, and Cervus appears to be a great way for Canadian retail investors to gain exposure to farming.

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