



## Canada Revenue Agency: Achieve 22% Gains Tax-Free!

### Description

**Leon's Furniture Ltd.** ([TSX:LNF](#))(TSX:LNF.DB) is a Canadian retailer of home furnishings, mattresses, appliances and electronics with stores across Canada.

Given that the business is seasonal in nature, there is a material increase in retail sales during the third and fourth quarters. Management also owns a [significant amount](#) of outstanding shares.

The company reports a market capitalization of \$1.26B with a 52-week high of \$16.48 and a 52-week low of \$14.01.

### Intrinsic price

Based on my calculations using a discounted cash flow valuation model, I determined that Leon's has an intrinsic value of \$19.85 per share.

Assuming less than average industry growth, the intrinsic value would be \$19.09 per share, and higher-than-average industry growth would result in an intrinsic value of \$20.69 per share.

At the current share price of \$16.23, I believe Leon's is slightly undervalued. Investors looking to add a furniture company to their TFSA should [consider buying shares of Leon's](#).

Assuming a bear market in 2020, I would recommend investors wait for a potential contraction in the market, which would result in a decreased share price.

Leon's has an enterprise value of \$1.743 billion, which represents the theoretical price a buyer would pay for all of Leon's outstanding shares plus its debt. One of the good things about Leon's is its low leverage with debt at 14% of total capital versus equity at 86% of total capital.

### Financial highlights

For the nine months ended September 30, 2019, the company reported a strong balance sheet with

\$776 million in retained earnings.

This is a good sign for investors, as it indicates the company has more years of cumulative net income than net loss, which means the surpluses were reinvested in the company to fuel growth.

Due to the adoption of IFRS 16, the company reports much higher total funded debt compared to FYE2018. That said, on a strictly short-term debt basis, the company reports \$97 million in short-term debt compared to \$137 million in cash, equivalents and debt/equity securities. Thus, I am not concerned with the company's ability to meet its current debt obligations.

Revenues increased slightly year over year from \$1.640 billion in 2018 to \$1.662 billion in 2019. Given flat operating expenses, the company realized operating profits of \$110 million, up from \$98 million in 2018. Net income for the period is \$68 million, down slightly from \$72 million the prior year.

The only thing that stands out to me in the cash flow statement is under financing activities. The company reports a cash outflow of lease liabilities of \$50 million, up from \$1 million in 2018.

The increase is due to the adoption of IFRS16 whereby the company is reporting the principal and interest payments on its lease obligations.

Ending cash balance of \$32 million, providing the company with decent liquidity.

## **Foolish takeaway**

Investors looking to buy shares of a furniture company should look into buying Leon's shares in a TFSA. With an intrinsic share price of \$19.85 compared to the market price of \$16.23, investors can expect to realize at least 22% gains.

I would recommend that investors follow Leon's share price and wait for further price drops as 2020 is shaping up to be a bearish year for stocks.

With positive retained earnings and increasing sales, Leon's reports solid financials and given the right price it makes for an ideal buy and hold TFSA investment.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:LNF (Leon's Furniture Limited)

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1. Investing

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cliu

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