January 2020: Could This 1 Stock Make a Bullish Run?

Description

New Look (TSX:BCI) is involved in the eye care industry in Canada. It is an operator of retail stores in Canada that offer eye care products and services. The network consists of corporately owned eye care stores in Quebec, Nova Scotia, New Brunswick, Newfoundland and Labrador, Ontario, PEI, Saskatchewan, and BC.

The company reports a market capitalization of $501 million with a 52-week high of $25.40 and a 52-week low of $26.01.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that New Look has an intrinsic value of $34.57 per share. Assuming less-than-average industry growth, the intrinsic value would be $30.83 per share, and higher-than-average industry growth would result in an intrinsic value of $39.28 per share.

At the current share price of $32, I believe New Look is slightly undervalued. Investors looking to add a retail company to their TFSA or RRSP should consider buying shares of New Look. I would recommend investors follow the share into 2020 as a bearish market could mean buying shares of New Look at a discount.

New Look has an enterprise value of $704 million, which represents the theoretical price a buyer would pay for all of New Look’s outstanding shares plus its debt. One of the good things about New Look is its leverage, with debt at 24% of total capital versus equity at 76% of total capital.

Financial highlights

For the nine months ended September 28, 2019, the company reported a strong balance sheet with $16 million in positive retained earnings (up from $10.5 million as at December 29, 2018). This is good news for investors as positive retained earnings indicate more years of cumulative net income than net loss which the company reinvested into itself.

Overall revenues are up from $220 million in 2018 to $224 million in 2019 (+2%). Given that inventories increased from $30 million to $35 million, it is clear that senior management anticipates increased sales in the coming years.

Pre-tax net income increased sharply from $16 million in 2018 to $20 million in 2019 (+23%).

Management remains committed to reducing its debt as indicated by a $12 million pay down of its revolving facility and a $7 million pay down of its acquisition term facility. This is offset by a $9.3 million draw on its revolving facility.

The company reported a $4.1 million outflow with regards to a strategic relationship with Topology Eyewear, which is a San Francisco company specializing in bespoke eyewear.

As an added bonus, the company pays a quarterly dividend of $0.15, which results in a dividend yield of 1.88%. Although it is nothing to jump up and down at, it allows investors to benefit from passive income as well.

Foolish takeaway

Investors looking to buy shares of a retail company should look into buying shares of New Look. With its rock solid financials, and a management team that is committed to reducing debt, New Look is well positioned to continue to grow while managing the ebbs and flows of the economy. Fellow fool Nelson Smith begs to differ.

At its current share price of $32, compared to its intrinsic value of $34.57, I believe the company is undervalued. With bearish sentiment going into 2020, I would advise interested investors to wait and follow the stock to find the appropriate time to buy in.

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