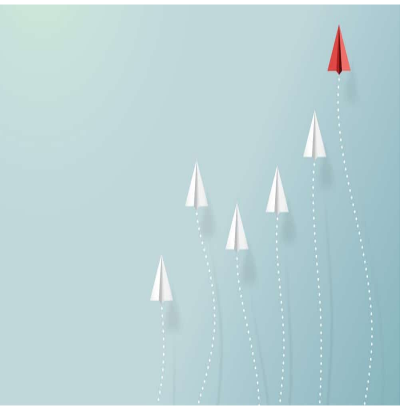

Canadians: This 1 Stock Is the Ultimate 2020 Bullish Play!

Description

Pollard (TSX:PBL) is engaged in the manufacturing and selling of lottery and gaming products. It is controlled by Pollard Equities Limited (a privately held company), which owns 67.5% of Pollard's outstanding shares.

The company reports a market capitalization of $514 million with a 52-week high of $25.08 and a 52-week low of $18.14.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that Pollard has an intrinsic value of $26.22 per share. Assuming less-than-average industry growth, the intrinsic value would be $24.95 per share, and higher-than-average industry growth would result in an intrinsic value of $27.63 per share.

At the current share price of $20.04, I believe Pollard is significantly undervalued. Investors looking to add a lottery ticket manufacturing company to their TFSA or RRSP portfolio should consider buying shares of Pollard.

Pollard has an enterprise value of $788 million, which represents the theoretical price a buyer would pay for all of Pollard's outstanding shares plus its debt. One of the good things about Pollard is its leverage, with debt at 18.2% of total capital versus equity at 81.8% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reported a strong balance sheet with $3 million in retained earnings (up from negative retained earnings of $4 million as at December 31, 2018). This is a good sign for investors as it indicates the company is starting to reinvest its surpluses in itself, which leads to additional growth.

The company reports a cash balance of $7 million. It reports a credit facility totalling $160 million for its Canadian operations and US$12 million for its U.S. operations. An accordion feature can increase the facility by $25 million. Given current outstanding debts of $131 million, the company has 24% unused room in its credit facilities, which gives the company ample liquidity to grow.

Overall revenues are up substantially from $262 million in 2018 to $298 million in 2019 (+14%) resulting in pre-tax income of $23 million for the period, essentially flat from 2018. Given the non-seasonal nature of Pollard's operations, investors can expect to see consistent top-line growth in the coming years.

The company acquired Fastrak Retail (UK) Limited for $8 million using cash on hand and proceeds from Pollard's credit facility. The company received $17 million through its credit facilities which was likely used to fund the acquisition.

During this period in 2018, the company raised $35 million through the issuance of shares and subsequently repaid $17 million in subordinated debt. This did not occur again in 2019.

Foolish takeaway

Investors looking to buy shares of a lottery ticket printing company should consider buying shares of Pollard. With positive retained earnings and ample liquidity through cash on hand and credit facilities, Pollard is well-positioned to deliver significant returns to shareholders in the future. The company also has a 0.80% dividend yield, which is not a lot but still provides a passive income stream.

As we enter 2020 with bearish outlooks on the market, I would recommend investors wait for the market to contract so shares can be purchased at a more favourable price. With an intrinsic value of $26.22 and a current share price of $20.04, investors have an opportunity to buy shares of a great company at a discount.

CATEGORY

1. Investing

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1. Investing

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