Canadians: This 1 Stock Could Gain 922%!

Description

Dorel (TSX:DII.B)(TSX:DII.A) is a global consumer products company that designs, manufactures or sources, markets and distributes products through its Dorel Home, Dorel Juvenile and Dorel Sports segments. The company's primary markets are the United States, Europe, Latin America, Canada and Asia.

The company reports a market capitalization of $188 million with a 52-week high of $18.45 and a 52-week low of $4.65.

Intrinsic price

Based on my calculations using a discounted cash flow (DCF) valuation model, I determined that Dorel has an intrinsic value of $57.82 per share. Assuming less than average industry growth, the intrinsic value would be $50.26 per share and higher than average industry growth would result in an intrinsic value of $67.78 per share.

At the current share price of $5.66 at writing, I believe Dorel is significantly undervalued. Investors looking to add a home furnishing and juvenile products manufacturer to their portfolio should look into buying shares of Dorel.

Given that Dorel manufactures non-necessities, I would recommend waiting for the next recession to pan out before buying in as investors will be able to buy the shares at a better price.

Dorel has an enterprise value of $2.4 billion, representing the theoretical price a buyer would pay for all of Dorel's outstanding shares plus its debt. One of the concerning things about Dorel is its high leverage with debt at 72.6% of total capital versus equity at 27.4% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reports a strong balance sheet with retained earnings of US$395 million. This is a good sign for investors, as it suggests net income realized by the company over the years have been reinvested in the company to fuel growth.

The company finished the period with US$29 million in cash compared to US$104 million in short-term debt obligations. Given the company's revolving bank loans and credit facilities, I am not overly concerned about the shortage of cash to cover short-term obligations.

That said, this situation reinforces the fact the company is highly leveraged, which could be expensive when the cost of borrowing increases.

Looking at the company's cash flow statement, senior management acknowledges this issue, as indicated by its repayment of long-term debt in the amount of US$139 million in 2019 and US$25 million in 2018. The debt repayments are offset by a US$127 million draw on the long-term facilities in 2019, and US$9 million draw in 2018.

Overall revenues are up slightly from US$1.936 billion in 2018 to US$1.981 billion in 2019 (+2.3%). Given managements' commitment to increasing operational efficiency, the operating profit increased significantly to US$36 million from US$24 million in 2018. Net loss of US$10 million, compared to US$445,000 in 2018.

One of the reasons why its share price has been punished in recent years is the high amounts of debt. I would like to see senior management continue its efforts to reduce long-term debt. Given this strategy, I believe its share price will appreciate dramatically.

Foolish takeaway

Investors looking to buy shares of a home furnishing and juvenile products company should add Dorel to their watch list. The company reports a solid balance sheet with positive retained earnings coupled with increasing revenues.

The biggest red flag for me is the company's debt, which represents 72.6% of its total capital compared to equity at 27.4%. If management is able to reduce its debt (which frees up a lot of cash currently dedicated to interest payments), then it is the intrinsic price of $57.82 will likely be realized.

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Date
2025/08/18
Date Created
2019/12/27
Author
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