RRSP Investors: Avoid This 1 Stock! For Now

Description

TWC (TSX:TWC) is engaged in golf club operations and is Canada's largest owner, operator, and manager of golf clubs, with 53.5, 18-hole equivalent championship courses and 3.5, 18-hole equivalent academy courses at 41 locations in Ontario, Quebec, and Florida.

The company reports a market capitalization of $345 million and a 52-week low of $12.51 and a 52-week high of $15.80.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that TWC has an intrinsic value of $4.62 per share.

Assuming less-than-average industry growth, the intrinsic value would be $4.10 per share, and higher-than-average industry growth would result in an intrinsic value of $5.20 per share.

At the current share price of $12.90, I believe TWC is substantially overvalued. That said, TWC owns a lot of valuable land and I would not be opposed to investing in TWC when its share price dips below intrinsic value. Given the size of golf courses, the land has a myriad of practical uses that would generate value for investors.

TWC has an enterprise value of $291 million, which represents the theoretical price a buyer would pay for all of TWC's outstanding shares plus its debt. One of the good things about TWC is its moderate leverage, with debt at 32.6% of total capital versus equity at 67.4% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reports a strong balance sheet with $318 million in retained earnings (down slightly from $321 million as at December 31, 2018). This is a good sign for investors as it indicates the company has had more years of cumulative net income than net loss.

TWC reports cash and equivalents of $124 million on $26 million of short-term debt, which means it has more than enough cash on hand to cover its current debt obligations. I am biased toward companies that have enough cash to cover their short-term debt as it suggests fiscal prudence on the part of management.

Overall revenues are down slightly to $134 million from $137 million in 2018 (-1.7%). Given an increase in operating expenses, the company reported pre-tax earnings of $1 million, down from $8 million in 2018.

In August 2019, TWC purchased a 50% interest in a real estate management company and various real estate housing investments for $14.5 million. Included in the deal is an 11.67% interest in the Highland Gate project, effectively increasing TWC's total interest to 61.67%. I believe this is a prudent investment as I would like to see the company eventually convert to a real estate company itself.

The company continues to make draws on its revolving facility of $21 million in 2019 (up from $113 million in 2018). I am a bit puzzled by this given the company's ample cash and equivalents balance.

Foolish takeaway

Investors that are looking to diversify into the real estate industry may want to consider buying shares of TWC. Although the company is not officially a real estate stock, it is very clear that the value of TWC lies in its various properties.

The company has strong financials with positive retained earnings coupled with enough cash and equivalents to meet its short-term debt obligations. My only concern with investing in TWC at the moment is its intrinsic value, which I calculate to be $4.62 compared to its current share price of $12.90.

I suggest investors wait to buy. Instead follow the stock and watch for news regarding the conversion of TWC into a real estate company. When this occurs, it would make for a very good investment.

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