RRSP Investors: Following This 1 Stock Is a Must!

Description

Corby (TSX:CSW.A) is a Canadian manufacturer, marketer, and importer of spirits and wines. The company's revenue comes from the sale of its owned brands in Canada and international markets as well as commission from the representation of non-owned brands in the Canadian marketplace.

Revenues are driven by sales made to the provincial liquor boards in Canada followed by ancillary activities such as logistics fees. Corby is controlled by Hiram Walker & Sons Limited, which is a wholly owned subsidiary of **Pernod Ricard** that controls 51.6% of Class A outstanding shares.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that Corby has an intrinsic value of $14.74 per share. Assuming less-than-average industry growth, the intrinsic value would be $14.01 per share, and higher-than-average industry growth would result in an intrinsic value of $15.57 per share.

At the current share price of $15.48, I believe Corby is slightly overvalued. Investors looking to add a wine and spirits company to their RRSP should follow Corby's stock through 2020, as a market contraction could push the share price below intrinsic value, which presents an opportunity to buy.

Corby has an enterprise value of $420 million, which represents the theoretical price a buyer would pay for all of Corby's outstanding shares plus its debt. One of the good things about Corby is its leverage, with debt at 0% of total capital versus equity at 100% of total capital.

Financial highlights

For the three months ended September 30, 2019, the company reported a strong balance sheet with $158 million in retained earnings, essentially flat from $158 million as at June 30, 2019. Positive retained earnings are a good sign for investors, as it suggests the company has more years of cumulative net income than net loss.

The company reports short-term debt obligations of $2 million (long-term obligations of $4 million), which are newly recognized lease liabilities due to the adoption of IFRS16. In my opinion, this represents a negligible amount, and I don't feel that this adversely affects the ability of the company to meet its debt obligations in the near future while continuing to grow.

Overall revenues are up year over year to $39 million from $38 million in 2018 (+2%), which is offset by an increasing cost of goods sold for operational net income of $8.7 million (flat from $8.7 million in 2018). Net income for the period is unchanged from last year at $6.5 million.

The company is a dividend-paying entity with a solid dividend yield of 5.68%. The company achieves this yield by paying a $0.22 dividend each quarter. Corby also increased its capital-expenditure spending year over year, which suggests investments to fuel business growth.

Foolish takeaway

Investors looking to buy shares of a wine and spirit company should consider adding Corby to their RRSP watchlist. The company reports positive retained earnings coupled with increasing revenues, which slightly offset by flat net income.

At its current price of $15.48, I believe Corby is slightly overvalued compared to its intrinsic value of $14.74. That said, I believe the company's financial wherewithal and a potential market contraction in 2020 could lead to a share price that dips below intrinsic value.

RRSP investors should follow the stock into 2020 for an opportunity to buy.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CSW.A (Corby Spirit and Wine Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/17
Date Created
2020/01/06
Author
cliu