Value Investors: Follow This 1 Stock NOW!

Description

Cott (TSX:BCB)(NYSE:COT) is a water, coffee, tea, extracts and filtration service company with a national presence in the North American and European home and office delivery industry for bottled water, custom coffee roasting, iced tea blending, and extract solutions for the U.S. foodservice industry.

The company reaches over 2.5 million customers or delivery points across North American and Europe. Cott reports a market capitalization of $1.82 billion with a 52-week low of $11.72 and a 52-week high of $15.92.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that Cott has an intrinsic value of $16.49 per share. Assuming less-than-average industry growth, the intrinsic value would be $15.71 per share, and higher-than-average industry growth would result in an intrinsic value of $17.35 per share.

At the current share price of $17.40, I believe Cott is slightly overvalued. Investors looking to add a foodservice company to their TFSA or RRSP should follow Cott stock through 2020, as a market contraction could push the share price below intrinsic value, which presents an opportunity to buy.

Cott has an enterprise value of $3.564 billion, which represents the theoretical price a buyer would pay for all of Cott's outstanding shares plus its debt. One of the things to note about Cott is its leverage, with debt at 36.4% of total capital versus equity at 63.6% of total capital.

Financial highlights

For the nine months ended September 28, 2019, the company reported a strong balance sheet with US$265 million in retained earnings (down slightly from US$300 million as at December 29, 2018).Cott reports cash and equivalents of US$144 million with current portion of long-term debt of US$139 million, which means the company has enough cash on hand to cover its short-term debt obligations.

I am very pleased that the company has enough cash on hand to cover its short-term debt obligations, as this indicates fiscal responsibility on the part of management.

Overall revenues are up materially to US$1.794 billion, from US$1.774 billion in 2018 (+1.2%), which is complemented by a lower cost of goods sold year over year for gross profits of US$922 million (gross profit margin of 51.4%). Pre-tax income for the year of US$5 million, down from US$29 million in 2018.

I am a bit concerned about the company's interest expense, which amounted to US$59 million in 2019 (3% of revenues), as this is money that could be used to grow the business.

In February 2019, the company sold all of the outstanding equity of Cott Beverages LLC, which operated the soft drink concentrate production business for proceeds of US$50 million, whereby a US$6 million loss was recorded on the deal.

The company exercised its normal course issuer bid during this period with share repurchases of US$31 million, which were subsequently cancelled. This is down from US$46 million of share repurchases in 2018. This is a strategy used by management to indicate it believes the current share price is undervalued.

Foolish takeaway

Investors looking to buy shares of a foodservice business should add Cott to their TFSA or RRSP watchlist. With positive retained earnings, increasing revenues, and an adept management team, Cott is poised to deliver significant value to its investors in the near future.

At its current share price of $17.40, I believe Cott is trading above its intrinsic value of $16.49 per share, which is why I advise investors to follow the stock into 2020 and wait for an opportunity to buy shares at a discount.

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