



TFSA Investors: 1 Canadian Financial Stock to Bet on for 2020

Description

When a stock is trading at its 52-week high, investors tend to get jittery. It gets tricky to try and time the stock because you are unsure if there will be a pullback on the price. However, there are some stocks whose true value hasn't been unlocked. And if you come across such a stock that trades at a reasonable valuation, you should start accumulating it. **Onex** ([TSX:ONEX](#)) fits perfectly into this category.

Onex is a private equity firm that that invests and manages shareholder capital and that of investors from around the world, including public and private pension funds, sovereign wealth funds, insurance companies, and family offices. Founded in 1984, Onex has generated an average gross multiple of capital invested of 2.6 times and a 27% gross IRR (internal rate of return) from its private equity activities since inception.

Onex has multiple private equity platforms such as Onex Partners, which focuses on larger opportunities in North America and Europe. Then there is ONCAP, which focuses on middle-market and smaller opportunities in North America. Onex Credit primarily manages non-investment grade debt through collateralized loan obligations, private debt, and other credit strategies. Last year, Onex acquired Gluskin Sheff's actively managed public equity and public credit funds.

In total, Onex has approximately \$38 billion of assets under management, of which \$7 billion is its own shareholder capital. Since its establishment 35 years ago, Onex has built over 100 companies and acquired around 645 businesses.

Recent quarterly results

The company's third-quarter results came out in November, and the company reported total segment net earnings of \$131 million. The fair value of Onex's private equity investments generated a gross return of 4% during the third quarter and 15% in the first nine months of the year.

Onex received \$775 million from its private equity investments in the first nine months of the year, largely driven by Onex Partners IV's sale of Jack's Family Restaurants and the secondary sales of SIG

Combibloc Group AG and Clarivate Analytics Plc.

Onex completed two major acquisitions in the last two months of 2019. The first one was the acquisition of Enertech Holdings from parent company Tower Arch Capital. Enertech is a leading provider of wireless infrastructure services to telecommunications carriers and tower owners throughout the Southern, Central and Pacific Northwest regions of the United States.

On December 11, 2019, Onex announced that it has completed the acquisition of WestJet valued at approximately \$5 billion including assumed debt. The WestJet Group of Companies, including regional airlines, WestJet Encore and WestJet Link, and ultra-low-cost carrier Swoop, offers scheduled service to more than 100 destinations in North America, Central America, the Caribbean, and Europe, and to more than 175 destinations in over 20 countries through airline partnerships. WestJet Vacations offers affordable, flexible vacations to more than 60 destinations and the choice of more than 800 hotels, resorts, condos, and villas.

Onex's investments are not all world class. Save-A-Lot and Survitec have been struggling with falling profitability. Save-A-Lot's Q3 EBITDA declined 63% compared to last quarter, while net debt rose by approximately the same percentage. Survitec's EBITDA declined 5% while net debt rose over 10%.

Onex acquired Save-A-Lot from SUPERVALU at the end of 2016, while it acquired Survitec for GBP 450 million in 2015. Onex has a [complex business model](#), and there is a growing concern over high valuations of privately held companies.

The stock has gained over 17% in the last year but is still trading 17% below its record highs. It can gain significant momentum this year if the market continues its bull run.

CATEGORY

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1. TSX:ONEX (Onex Corporation)

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