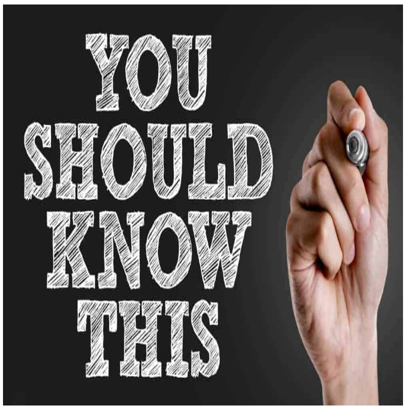

Is This Large-Cap Canadian Heavyweight Undervalued?

Description

Long-term investors are always on the lookout for stocks that are trading lower than their intrinsic value. This strategy generally bodes well, as value stocks outperform broader markets more often than not.

We'll look at one such domestic giant that has strong fundamentals to gauge if it is trading at an attractive valuation. **George Weston** (TSX:WN) is a well-diversified company. Its business segments include **Loblaw,** Weston Foods, and **Choice Properties**.

We know that Loblaw provides a slew of services in retail (grocery, merchandise, pharmacy, health & beauty) and financial services (retail banking, insurance, and credit card services) space. Weston Foods is a fresh bakery business in North America.

Loblaw and Weston Foods hold cash, short-term investments, and a direct investment in Choice Properties, which is a real estate investment trust. George Weston generates a majority of sales from Loblaw (around 96%, followed by Weston Foods and Choice Properties.

The company has a market cap of $16 billion and an enterprise value of $41.69 billion. At the end of the last quarter, the company reported a debt balance of $20.9 billion. The stock is currently trading at $103.73 and has returned 11% in the last year, grossly underperforming the S&P 500, which has gained 27% in the last 12 months.

Company to experience sales growth

Analysts expect George Weston sales to touch $50.12 billion in 2019 — year-over-year growth of 3.2%. In 2020, sales growth will accelerate marginally by 3.5% to $51.9 billion, according to analyst estimates.

This means George Weston is valued at 0.32 times forward 2019 revenue (in terms of market cap) and 0.84 times forward sales (in terms of enterprise value). Further, analysts also expect the company to increase earnings growth by 8.3% in 2019, 4.9% in 2020, and by an annual rate of 5.7% in the next five years. Comparatively, the stock is trading at a forward price-to-earnings multiple of 13.3, which might seem reasonable after accounting for a dividend yield of 2%.

George Weston stock has returned just 8.7% in the last five years, which will not impress investors. Fool contributor Chen Liu has forecast the stock's intrinsic value at $222.22 per share, which means that the stock is trading at a significant discount.

In the last reported quarter, George Weston managed to increase sales by 2.44%, while adjusted EBITDA and net earnings rose by 19.4% and 35.6%, respectively.

However, its cash flow at the end of Q3 stood at $1.49 billion, down almost 20% compared to the prior-year period. This decrease was attributed to an increase in cash used for financing activities by Choice Properties. These financing activities included repayment of debt, higher repayment of short-term obligations, and higher repurchases of Loblaw's common shares.

The company's high debt balance will remain a cause of concern for investors, as it provides limited room to increase dividend payments going forward. George Weston ended the September quarter with an operating cash flow of $3.7 billion. But it also paid $588 million to shareholders in the form of dividends in the first nine months of 2019.

As seen above, Gorge Weston is a well-diversified company, which means it should be able to hold its own in a downcycle if the recession hits markets in 2020. While the stock is not overvalued, it does not seem an exciting pick for value investors considering its tepid performance in the last few years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:WN (George Weston Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/16
Date Created
2020/01/13
Author

araghunath