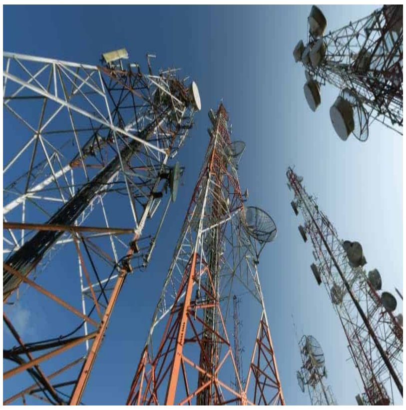

Attention: Why This 1 TSX Stock Should Be Avoided!

Description

Quebecor (TSX:QBR.B)(TSX:QBR.A) is a telecommunications company that offers telecom services through its subsidiary Videotron.

Videotron is a cable company offering cable TV, internet, telephone, and over-the-top video services on its cable network that reaches 2.8 million Quebec homes. Videotron reports over 900,000 wireless subscribers, which makes it the fifth-largest wireless carrier in Canada.

Quebecor reports a market capitalization of $8.44 billion with a 52-week high of $33.99 and a 52-week low of $28.51.

Intrinsic price

Based on my calculations, using a comparable company analysis (CCA) valuation model, I determined that Quebecor has an intrinsic value of $29.07 per share.

The price at the time of writing is $33.17, which suggests Quebecor is substantially overvalued. RRSP and TFSA investors looking to buy shares of a telecommunications company should avoid Quebecor.

Quebecor has an enterprise value of $14 billion, which represents the theoretical price a buyer would pay for all Quebecor outstanding shares plus its debt.

Highlights

For the nine months ended September 30, 2019, Quebecor reports an improving balance sheet with negative retained earnings of $137 million, up from negative $508 million as at December 31, 2018.

This is a good sign for investors, as it suggests the company is turning profit, which is reinvested to fuel growth. Despite this improvement, tangible net worth (TNW) is negative $3.2 billion due to intangible assets of $1.5 billion and goodwill of $2.7 billion.

TNW is often regarded as the real value of a company, with a negative TNW being a cautionary sign.

Overall revenues are up slightly to $3.2 billion, up from $3.1 billion in 2018 (+2%) complemented by flat COGS and SG&A resulting in pre-tax income of $556 million in 2019, up from $435 million in 2018 (+28%).

Quebecor reports very strong nine-month results with net income of $508 million for the period, up from $321 million (+58%).

The company reports a traditional cash flow coverage ratio of 8.92 times (net income + depreciation / CPLTD), which is a key financial metric used by financial institutions to determine the debt-repayment ability of a company. Anything over one is considered good.

Capital-expenditure spending is down to $377 million during this period, from $415 million in 2018 (-9%), which may suggest flatter growth in coming years.

The company is committed to managing its debt load, as indicated by repayments of long-term debt of $443 million in 2019 and $16 million in 2018. This is offset by draws of $281 million in 2019 and $546 million in 2018.

The company has a normal course issuer bid in place whereby it has repurchased and cancelled $81 million worth of shares in 2019, down from $186 million in 2018.

Quebecor is a dividend-paying entity with a current dividend yield of 1.36%.

Summary

Investors looking to buy shares of a telecommunications company should avoid Quebecor. At its current share price of $33.17, I believe it is trading at a premium compared to an intrinsic value of $29.07.

Further to this, the company reports negative retained earnings and decreasing capex spending, offset by growth in revenues and net income.

Overall, TFSA and RRSP investors will be better off putting their money in other telecommunications companies.

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