Serial Compounders: How This Company Turns $1 Into $1.20 Every Year

Description

Compounding wealth is probably the primary goal of any corporation. By eking out a decent return on invested capital over time, companies can grow exponentially. If a company can turn $1 in capital into $1.20 every year with consistency, its underlying net worth could double in fewer than four years.

Finding these wealth creators and betting on them early is probably the prime focus of every long-term investor. With that in mind, here's a company that seems to be compounding wealth but is yet to enter the mainstream investor's watch list.

Chorus Aviation

Dartmouth, Nova Scotia-based **Chorus Aviation** (TSX:CHR) seems to have built a robust business in a niche segment of the global aviation industry. The company provides charter planes on lease and operates its own fleet of regional air carriers.

Now, operating a fleet of airlines isn't a particularly lucrative business. In fact, entrepreneur Richard Branson once said that the quickest way to become a millionaire was to start off as a billionaire and then buy an airline. However, Chorus redefined its model by entering the leasing business in 2017.

Since then, the company's underlying margins and return on invested capital have improved. Over the past 12 months, the company's return on equity was 19.5%, which means it turned every dollar in shareholder wealth into nearly $1.20. Over the past five years, the company's average annual return on equity has been 51.9%.

Now, the company owns a fleet of 131 planes, collectively worth more than US$2 billion, and generates $233 million in operating cash flow. Measured by the value of its portfolio, Chorus is the second-largest regional aircraft lessor in the world.

With air traffic growing in Asia and Africa, and a growing number of airlines leasing their planes rather than buying them outright, Chorus expects its market opportunity to expand substantially by 2025.

Despite steady returns and an appealing new business model with growth potential, this stock seems to be flying under the radar.

Valuation

Chorus's stock performance doesn't reflect its underlying fundamentals. The stock price is up only 30% since mid-2016. At the moment, it trades at roughly 13 times annual earnings per share and just 2.2 times book value per share.

Strong returns on capital coupled with a suppressed stock price have made Chorus one of the top dividend stocks on the market. The dividend yield is currently just under 6%, while the payout ratio is comfortably low at 77%.

In other words, Chorus seems like a compelling investment opportunity for any investor seeking a mundane but profitable addition to their long-term portfolio.

Bottom line

Chorus's unceremonious pivot to an aircraft-lessor business model is underappreciated by investors. The company has a chance to borrow capital cheaply, buy air carriers in bulk, and lease them out on lucrative multiple-year contracts to airlines across the world. As air traffic expands and airlines turn to the leasing model, I expect the company's bottom line to expand.

At the moment, the stock price doesn't reflect this potential and certainly looks like a bargain. That could make it an acquisition target or the perfect addition to your value investing portfolio.

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