1 TSX Stock I'd Be Tempted to Sell on the Market Rally

Description

The world will probably limp back to normalcy in May 2020. Some companies have had decent first-quarter numbers. The second quarter, for most companies, is going to be a dud, as they continue to grapple with the lockdown and business closures. A few companies may be able to claw back their way to growth in the third and fourth quarters of the year. For others, it's going to be an uphill climb.

Colliers International Group (TSX:CIGI)(NASDAQ:CIGI) falls in the latter category.

Colliers is in the real estate and investment business

Colliers is a leading real estate professional services and investment management company with operations in 68 countries.

For more than 25 years, the company has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than US$3 billion ($3.5 billion including affiliates), with US$33 billion of assets under management in the company's investment management segment.

The company just reported its numbers for the first quarter of 2020, and they are quite impressive. For the quarter, revenues were US$631 million, up 1% versus the same period in 2019. Adjusted earnings per share came in at US$0.54, up 6% versus the prior year. It beat analyst estimates of US$0.48 per share.

The first-quarter consolidated EBITDA was US$54 million compared to US$44 million. This indicates an EBITDA margin of 8.6% versus 6.9% in the prior-year quarter.

While the first two months of the quarter were good, the effects of the pandemic have begun to show in March. Q1 revenues in the Americas totalled US$370 million, up 4%. Europe, Middle East, and Africa Q1 revenues were US$117 million, flat relative to the prior comparative period.

The pandemic adversely impacted brokerage revenue late in the quarter. EBITDA for the region was a loss of US$4 million compared to a loss of US$3 million last year.

Asia Pacific region revenues were US$97 million, down 9% year over year. A sharp fall in brokerage activity in China and other Asian countries due to the ongoing pandemic hurt sales in this region. Lower revenue and service mix meant EBITDA fell to $5 million from $11 million in this region.

What’s next for investors?

Jay Hennick, the company’s CEO has said, “Given the uncertainty, we expect the balance of the year to be challenging, particularly for our brokerage operations.”

About 45% of Colliers’ revenues and more than 50% of EBITDA comes from outsourcing, advisory, and investment management — services that are typically essential, recurring, and contractual, giving the company a much more stable business than ever. The rest of the company’s revenues and EBITDA come from the highly variable brokerage operations, which the company expects will decline sharply. That’s 55% of the business.

Brokerage revenues have a highly variable cost structure. Sales from this business are forecast to decline sharply in the second quarter. It might gradually improve sequentially in the third and fourth quarters. That said, there is a lot of unpredictability in the real estate sector.

Colliers’s working assumption for the full year 2020 is a 15-25% decline in consolidated revenues. It also forecasts a 25-35% decline in consolidated adjusted EBITDA relative to 2019. This excludes the impact of pending acquisitions.

Hennick says, “Without question, we will continue to be tested in the coming months in ways we can’t anticipate.” Investors need to stay away from Colliers until the second-quarter results are out and there is relative clarity for the second half of the year.

CATEGORY

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