This TSX P/E Giant Wants to Pick Up Distressed Assets Amid the Pandemic

Description

It’s a great time to go bottom-fishing, as the COVID-19 pandemic has driven stocks lower. As hundreds of thousands of businesses are impacted by the coronavirus, it presents a very good opportunity for players with deep pockets to pick up good companies that have been hit badly because a virus decided to disrupt the world.

Onex (TSX:ONEX) manages more than $38 billion in assets under management, of which $7.2 billion is its own shareholder capital. It is on the lookout for distressed assets. Onex manages capital on behalf of its shareholders, institutional investors, and high-net-worth clients from around the world.

It operates on multiple platforms with Onex Partners focusing on larger opportunities. ONCAP looks at mid- and small-sized companies, while Onex Credit manages non-investment-grade debt through collateralized loan obligations and private debt.

Distress=opportunity

Onex has $1.9 billion of cash and equivalents, along with $4.3 billion of uncalled LP capital that management says it will deploy in favourable opportunities that come up in the near future. Onex has almost $300 million of annual management fees to bank on as well.

This year, Onex has made a couple of notable transactions. The first one was the sale of SIG Combibloc shares that fetched the company $572 million in total. The second one was the acquisition of Independent Clinical Services (ICS) in April.

ICS is a leading U.K.-based healthcare staffing and workforce management business that is starting off in the U.S. as well. Onex believes that there will be further opportunities in private equity that will present themselves in distressed situations.

The company is looking at investing in CLO (collateralized loan obligations) securities that are held by other investors and are more sensitive to mark-to-market volatility. Onex says it is actively looking at “opportunistic distressed strategies” where it can help “good businesses with bad balance sheets.”

A look at Q1 results for Onex

Onex recently reported its results for the first quarter of 2020, and it clocked a net loss of $997 million. It has divided its businesses into three categories. The first one is a “fortunate group of 11 businesses, where the expected impact of COVID is low or in some cases even a long-term positive.” The second group is 19 businesses where the pandemic will have an impact on the supply or demand side. The third one is a group of seven businesses where revenues have plummeted to near zero, and there is a longer-term change expected where consumer behaviour and demand might change.

An example of the third group is Onex’s investment in airline company WestJet. Capacity is down significantly, and the company says WestJet is “in a bit of a hibernation.” This was a major investment for the company last year and the lockdown has hit Onex hard.

Onex revenues have grown at a CAGR of 8% in the last five years. It is a Dividend Aristocrat, paying out dividends every quarter for over 30 years, though its yield of 0.4% is pretty low. It’s a good company with strong management and has seen multiple crises since its inception. It’s a good bet to take in the current scenario given its 28% decline from 52-week highs.

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