1 TSX Stock That Is Poised for a Comeback in a Post COVID-19 World

Description

Not many people are buying furniture these days. Spending on furniture is discretionary, and when there's a pandemic that just refuses to go away, sprucing up one's home is the last thing on people's minds. However, this will change as the world slowly gets back to normal.

Leon's Furniture (TSX:LNF) is one of the most well-known names in the furniture space in Canada. A stable company that has consistently increased its earnings from $83.5 million in 2016 to $107 million in 2019, even Leon's is not immune to the coronavirus. Its stock fell from over $17 in January to $10.5 in March before stabilizing at $12-$13 levels.

Its results for the first quarter of 2020 were in line with expectations. Revenue was flat at $400 million. Adjusted net income increased to $13.9 million from $9.4 million in Q1 of 2019. The company has access to $300 million of credit, and as of May 2020, Leon's hadn't touched this option. One massive arrow in Leon's arsenal is its entirely owned 4.2 million square feet of real estate portfolio comprising land and buildings.

How this TSX stock is combating COVID-19

The company has said that COVID-19 will impact its Q2 results will severely. Leon's was quick to take action, laying off 50% of its workforce on March 25 and a further 20% since then. Leon's has also applied for the Canada Emergency Wage Subsidy, "which will materially contribute towards its cost savings initiatives and allow for more of its temporarily laid off associates to be returned to work in the second quarter of 2020."

These measures show that the company has been aggressive in saving cash and cutting costs while getting ready to hit the ground running when business returns to normal.

Leon's revenues have steadily risen over the last decade, going up from just over $700 million in 2010 to $2.28 billion in 2019. That's a CAGR of 12.4% over 10 years. The furniture market in Canada amounts to revenues of $28.1 billion in 2020. Leon's has a market share just shy of 10%.

When the pandemic does ebb and businesses are able to get back to regular operations, a lot of consolidation will take place in the space. Weaker players will have to shut shop, and the ones that remain standing will be able to gain a larger piece of the pie. Leon’s is likely to be in the latter group.

Since 2013, Leon’s dividend payout has gone up from $0.4 a share to $0.64 a share. That’s a CAGR of 6.05%. It paid out 41% of its profits and 22% of its free cash flows in dividends last year. These are very comfortable figures for investors, making its forward yield of 3.8% relatively safe.

These numbers show that Leon’s is not a company that pays out excess dividends as its revenues go up. It also means that the company is investing its earnings to grow the business, which will help drive its stock higher over time. Leon’s is a conservative company, and that is a good sign for people looking for a long-term investment.

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Date
2025/06/29
Date Created
2020/06/20
Author
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