This TSX Stock Starts Trading on NYSE Next Week: Should You Buy it?

Description

Sprott (TSX:SII) — the Toronto-based asset management firm — is set to debut on the **New York Stock Exchange** next week. Its stock is expected to start trading on NYSE from June 29, the company revealed on Wednesday. Sprott's dual listing on NYSE and **TSX** might look like an interesting development at first. However, let's take a closer look at the company's recent financials and other developments and find out whether it's worth investing.

Recent stock consolidation on TSX

Nearly a month ago (on May 26), Sprott announced the plan to consolidate its shares on TSX — which were trading at $3.67 at the time. With one-for-10 consolidation — also known as reverse stock split — its total outstanding common shares reduced from about 253.56 million to 25.36 million.

In general, a reverse stock split doesn't have any major significance for businesses, except it reduces the number of outstanding shares and tends to boost a company's per-share prices as multiple shares get combined into one.

Disappointing financials

In the first quarter, Sprott posted an adjusted EPS of $0.10 — without any change from its earnings in the same period of the previous year. The company also missed analysts' EPS estimate of $0.23. It was the fifth consecutive quarter when its EPS fell short of analysts' expectations. In the previous quarter, the company's adjusted EPS dropped by 75% on a YoY (year-over-year) basis.

Other asset management companies such as **CI Financial** and **IGM Financial** reported a solid three-digit rise in their earnings in Q1.

In January, Sprott acquired Tocqueville Asset Management's gold strategies, which boosted its assets under management by about US$1.7 billion. Despite a significant rise in its management fees and commissions, a considerable drop in its finance income and investment losses lowered Sprott's revenue-growth rate in the first quarter. Also, its operating expenses rose by about 14% YoY to $18 million in the last quarter.

High valuation

Recently, Sprott's valuations have gone up sharply. It's trading 26.2 times its EV/EBITDA and 53 times its earnings over the trailing 12 months. These valuation multiples — in my opinion — are way too high for a business with such performance.

By comparison, other asset management companies such as **Fiera Capital** and CI Financial have much lower valuation. Fiera Capital is trading 7.7 times its earnings and four times EV/EBITDA. Similarly, CI Financial is trading 7.4 times its earnings and 4.6 times EV/EBITDA.

Foolish takeaway

In 2019, Sprott stock underperformed the broader market. While its stock rose by 16% last year, the TSX Composite Index registered a 19.1% rise. In contrast, it has outperformed the broader market and its peers by a wide margin in 2020.

As of June 25, Sprott has gone up by 54.7% as compared to a 9.5% drop in the TSX Composite benchmark. Meanwhile, the shares of peers — Fiera Capital and CI Financial have lost by 19.7% and 21%, respectively, year to date.

Due to Sprott's extremely high valuation and lack of strong fundamental support for its recent stock rally, I would avoid buying it at the moment — no matter where it gets listed.

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