Wall Financial (TSX:WFC): Contrarian Buy or Value Trap?

Description

Early this year, when the world was a simpler place and people were not locked down, certain stocks were market favourites. These companies had good business models, good books of accounts, and good leadership. A lot of these good stocks have had their business models blown out of water. Businesses that had rock-solid models are struggling to make ends meet.

One such stock is Vancouver-based real estate investment and development company **Wall Financial** (TSX:WFC). The stock was trading at $35 in the middle of February, and it was a good buy. Today, the stock is trading around $22, since it dropped off a cliff at the end of February.

The stock sported a dividend yield of 8.5% in February; if the dividend was currently being paid, the forward yield would be 14.25%. Wall Financial, however, declared that there will be no dividend paid because of the impact of the COVID-19 pandemic.

Wall Financial is a residential real estate developer and seller and also rents and manages residential as well as hotel properties. The company had seen a growth of 185% in the last five years, and it seemed like it was destined for bigger things, but the last quarter has thrown a spanner in two of its three verticals.

What ails Wall Financial stock?

The development and sales arm as well as the hotel rental business will have a difficult second half of 2020. From the looks of it, there is going to be a second wave of the pandemic very soon, and that will mean business and leisure travel will not resume quickly. The Hotels Association of Canada said that 4,100 out of 8,298 hotels in Canada closed because of the pandemic.

Wall Financial's hospitality business suffered, as one of the two towers at its downtown hotel was shut down due to a cost-reduction program. All non-essential staff was furloughed, and only necessary expenses were made to conserve cash.

For the three months ended April 30, 2020, the hotel business reported revenues of $8.8 million compared to $17.2 million in the same period in 2019. The company statement said, “The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the company’s business are not known at this time.”

The pandemic didn’t hit the rental and development operations as badly. Revenues from the rental business were $8.7 million on April 30, 2020, compared to $8.37 million in the same period in 2019. Development revenues dropped from $22.4 million to $20.8 million for the quarter ended April 30. This was due to fewer closures of condo units.

All of this resulted in a net loss of $3.8 million for the quarter ended on April 30, 2020, compared to net earnings of $7.3 million in 2019. It’s been 45 days since the last results, and the economy is just starting to open up. The hotel industry will take quite some time to get back on its feet. The development and sales numbers of May and June won’t be too great either.

The Foolish takeaway

Wall Financial stock has a market cap of $713 million and is trading at a forward price-to-sales multiple of 2.73. If fears of a second wave come true, this stock will plummet further, driving its valuations lower. Investors should instead wait and watch the broader economy before deciding on this stock.

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Date
2025/08/28
Date Created
2020/06/30
Author
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