



ALERT: TSX's Best Micro-Cap Stock Investment

Description

Chesswood Group ([TSX:CHW](#)) is North America's only public company focused exclusively on [commercial equipment finance](#) for small and medium-sized businesses. The company's primary continuing operations are conducted through three subsidiaries called Pawnee, Tandem and Blue Chip. Pawnee finances micro and small-ticket commercial equipment in the United States (U.S.) through the third-party broker channel. Tandem sources micro and small-ticket commercial equipment originations in the U.S. through the equipment vendor channel. Blue Chip finances commercial equipment across Canada.

The company has a price to book ratio of 1.21, dividend yield of 2.6% and market capitalization of \$149 million. Debt is very high at Chesswood as evidenced by a debt to equity ratio of 4.45. The company has excellent performance metrics with an operating margin of 29.84%.

The company's largest operations are conducted by Pawnee, which accounts for 84% of consolidated revenues. Pawnee specializes in providing [equipment financing](#) of up to \$250,000 to small and medium-sized businesses in the U.S., with a wide range of credit profiles from startup entrepreneurs to more established businesses, through a network of approximately 600 independent equipment finance broker firms.

Pawnee limits the transaction size for non-prime businesses as one measure of risk mitigation. These non-prime market niches are not usually served by most conventional financing sources, as they have a generally higher risk profile. To manage the incremental risk associated with financing businesses in these niches, Pawnee's management has built a stringent operating model that has historically enabled Pawnee to achieve higher net margins than many typical finance companies. The gradual expansions in Pawnee's product offerings have allowed it to become a much more important source of funding to broker customers.

In early 2019, the company launched Tandem, located in Houston, Texas, which offers equipment financing for small and medium-sized businesses of all credit profiles through equipment vendors and distributors in the U.S. While the vendor channel has a longer sales cycle than the traditional third-party channel, equipment vendors and distributors generally form long-term partnerships with funders

which usually result in programs that generate originations and revenues over many years.

In 2019, Tandem originated \$31 million in financing and was supported by Pawnee's credit, documentation, collection and administrative departments which provides back-office support to Tandem.

Chesswood's Canadian operations are conducted by Blue Chip, a company that specializes in micro and small-ticket equipment finance for small and medium-sized businesses. Blue Chip accounted for 15% of consolidated revenue. Acquired by Chesswood in March of 2015, Blue Chip has 30 full-time equivalent employees.

Located in Toronto, Blue Chip originates receivables across Canada which are sourced from a nationwide network of more than 50 independent equipment finance broker firms and through direct, and in-house origination efforts via equipment vendors. It derives substantially all of revenues from financing leases and loans and related service charges.

Recently, Blue Chip started to offer to a single source of commercial equipment financing across all credit classes. Blue Chip also provides financing to a small number of condominium corporations for building improvements. These secured loans typically have terms ranging from three to five years.

Chesswood is well positioned to benefit from a boom in equipment financing opportunities.

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Date

2025/07/02

Date Created

2021/02/10

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