



Why This Top TSX Stock Could See Headwinds on the Horizon

Description

A company that's not normally in the news is **George Weston** ([TSX:WN](#)). Indeed, this conglomerate in the food industry has been making more headlines than investors may have expected of late.

The company recently put its Weston Foods division on sale to concentrate on its retail and real estate operations. This move has stoked interest in this stock, which has a very long history in the Canadian market. Weston Foods, the bakery business George Weston is looking to sell, has been around for more than a century. And its spin-off would make WN stock a holding company for investors interested in the food retail space.

Let's dive into what's going on with George Weston, and why investors may want to look elsewhere for growth right now.

Earnings unfavourable of late

With earnings season delivering some rather unexpected beats and misses, this past quarter was an intriguing one to watch. In the case of George Weston, things didn't really turn out as planned for investors.

One wouldn't know by looking at George Weston's share price. Though a significant portion of the recent rise in the company's share price is likely due to the company's announced interest in spinning off its bakery division.

The company reported a Q1 loss of nearly \$62 million, or \$0.41 per diluted share. This was a large divergence from last year's profit of \$3.78 per share during the same period. This loss was mainly a result of an unfavourable fair-value adjustment of a trust unit liability.

Adjusted earnings were up year over year, coming in at \$1.59 per diluted share, compared to last year's quarterly earnings of \$1.55 per share. Revenue growth year over year was minimal, though grocery retail wasn't necessarily a sector that got hit hard as a result of the pandemic.

The company's fundamentals appear to be sound, and investors seem intrigued by the company's low valuation multiples. However, let's take a look at the key headwind I see on the horizon for this stock moving forward.

The bakery spin-off

I think George Weston's [spinoff](#) of its Weston Foods division could be a great near-term catalyst, but could provide some headwinds longer term.

One might question this thesis. After all, if the company becomes more focused on its core holdings and receives outsized value for the sale of its bakery division, isn't that good for shareholders?

Yes.

However, I don't really see the reason investors would want to hold George Weston post-spin off. The company would essentially become a holding company of **Loblaw Companies** and **Choice Property REIT**, two great companies in their own right. However, I don't see why investors would pay a premium to owning shares in both companies directly.

Right now, George Weston's share price incorporates a premium from a sale of its bakery division that hasn't materialized yet. Personally, I think owning the company's subsidiaries directly and avoiding any volatility that may arise as a result of the spin-off is going to be viewed as preferable to investors from here.

Where this stock goes from here remains to be seen. However, I'd caution investors to be careful with this one.

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