



Is North West Company (TSX:NWC) a Good Buy at a 16% Discount?

Description

Evaluating a company based on the size of its current discount may not seem like a sound strategy, but it *is* how many value investors go about it. They have a watchlist of good businesses they like to invest in, but only when they're trading at or below a particular valuation or price. They may only choose [undervalued stocks](#) from this list at any given time.

That's because even if they consider it a worthy enough investment based on its return potential and other defining characteristics, like resilience, these might not be enough for the stock to make the cut at a fair or overvaluation. But once these stocks fall enough, they become viable holdings for these investors.

And if we evaluate **North West Company** ([TSX:NWC](#)) as an investment, it would be a good idea to try and figure out whether it's only a good investment right now, because it's discounted or it would have been a healthy enough pick at a higher price as well.

The company

North West Company is a retail enterprise that caters to a specific clientele in certain regions: i.e., underserved communities. This is a unique edge the business has, and it offers advantages and disadvantages.

The main advantage is less competition and almost no competition in certain areas. The main disadvantage is logistics and profit limitations, as these populations usually don't see rapid growth, so the retailers may only be able to grow their profits to a certain degree.

The tradeoff is reliability, as the communities start relying on the retailer for most of their needs, especially if the retailers are flexible and well integrated enough to adapt to the community they are serving.

North West Company mainly serves such communities in five regions: northern and western Canada, rural Alaska, the Caribbean, and some South Pacific Islands. And its roots in the communities it serves

are usually quite old — the enterprise as a whole can trace its existence back to 1668!

The stock

North West Company stock can be considered a stable and modestly rewarding holding, especially on the capital-appreciation front. The stock has returned only about 54% in the last 10 years. And even though it's much better than inflation eating your savings up, it's no match for a good growth stock.

As for dividends, the company usually offers a decent yield, which has become slightly more pronounced thanks to the current 16% dip. The yield has gone up to about 4.4%. The company has been growing its dividends (though not consistently) over the last 10 years, and the payout ratio mostly remains in the safe territory.

Foolish takeaway

North West is a good, reliable, long-term buy. Its business model seems financially stable enough to support the dividends it pays to its investors through relatively turbulent markets as well. The stock has shown resilience against market headwinds.

And its collective return potential (capital appreciation and dividends) is quite decent. It's a good long-term holding at a fair price but a much better buy when it's discounted, like it is now.

CATEGORY

1. Dividend Stocks
2. Investing

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