Is This the Next Dinosaur to Go Extinct?

Description

In spite of being a bull on shares of **North West Company** (TSX:NWC) for a number of years, the time may have come to re-evaluate the situation in the hopes of missing out on a secular shift. As many have learned the hard way, the internet and "home delivery" have permanently altered the retail landscape and, along the way, destroyed a lot of shareholder value. As investors, this is what we want to avoid — a destruction of shareholder wealth.

In the case of North West Company, the company has been spared in large part because of its unique footprint and numerous locations in remote areas. The challenge that the company and investors now face is that dividend increases are beginning to stretch the balance sheet more and more, which — as interest rates increase slowly but surely — will make it more difficult for the company to increase leverage. To boot, the higher-than-average dividend yield will need to be even higher (in comparison to the risk-free rate of return) to be seen as "attractive" by investors.

At a current price of almost $30 per share, the dividend yield is close to 4.3%, and yet investors have very little to look forward to. There are very few areas of organic growth remaining, and with the increase in areas where **Amazon.com** is willing to ship to, the major risk is that certain markets that are dominated by North West Company will become extremely competitive. Along the way, margins will be cut, and profitability will be reduced for this old-style bricks-and-mortar retailer.

With so many headwinds being faced by North West Company, investors seeking a defensive business may be best suited to take a better look at shares of **Intertape Polymer Group** (TSX:ITP), which is in the business of manufacturing adhesive (tape) for everyday use. At a current price of $18.50, the dividend yield is a generous 4%, and the company still has internal opportunities to increase the bottom line. Currently, the manufacturing facilities are under review, and the company is making improvements to produce various products at a lower cost.

To make this name more interesting, a substantial amount of the revenues is in U.S. dollars, which, given the lower Canadian currency, has led to an increase. In spite of this headwind, investors can rest assured, as this is largely priced in to the current share price. In spite of online retailing, the manufacturing of tape remains essential, as consumers will need the product at various times — but never more than when they are moving!

Regardless of where the product is bought, the reality is that this company will be around for a long time to come (and may even be a buyout target for a larger conglomerate). Time will tell, and until then, let’s enjoy the dividends!

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