

BMTC (GBT) Group Inc. Valuation

Screen

At a share price of \$16.44 on December 2, 2018, GBT Group Inc. (GBT) has a P/E of 11.9, a P/B of 2.74 and a market cap of \$588M. The market cap and P/B are slightly higher than we would like (\$450M and 1.2, respectively), however, when combined with the P/E below 12, this is a company worth evaluating for investment potential.

Company & Industry Analysis

GBT's core business is in the retail home furnishings industry which sells furniture, upholstered kitchenware, floor, and wall coverings. Along with home furniture, the retailers also carry electronics and home appliances in their product portfolio. We found the industry to be moderately attractive with low barriers to entry and high competition that is countered by low bargaining power of suppliers and buyers. The company has been very successful within the Quebec market (the only market that it operates in) by investing in a very aggressive marketing and advertising strategy. The out of home advertising is augmented by strong consumer promotions inside the stores.

GBT's EBIT margins (7%-8%) and revenue growth are in-line with the industry's. Their Beta is 0.62, which implies that it is a low risk company. However, we have some concerns about the concentration of ownership. The founding family owns 60% of the company, effectively giving them control of the company. This could give rise to potential corporate governance concerns. Because the des Grosseiller family controls a majority of the shares, if management does not perform, a risk exists at face value that minority shareholders will not be able to enact change. Based on these facts, we have assessed GBT's business risk to be **MEDIUM**. As a result, their range of the optimal debt/value capital structure 30-50%. Their B/V was calculated to be 14.65% (see **Figure 1.2**), consistent with a financial risk of **LOW** and were assigned a **debt rating** of A. Based on this rating, they have an **kd** of 2.86% where risk free rate is 2.37% and **BRP** is 0.60%. We have an **ERP** of 4% and **ks** is 6.86%, which results in a **WACC** of 6.2% (see **Figure 1.2** for detailed calculations). Their first pass ROIC is 50.4% (see **Figure 1.12**), indicating that EPV > NAV.

NAV

The NAV value/share is **\$13.17**. See **Figures 1.3-1.7** for further information.

EPV

The EPV/share is **\$26.52**. See **Figures 1.8-1.11** for further information.

Franchise

GBT has a franchise as EPV is significantly larger than NAV, consistent with our findings. To estimate, how sustainable will it be, we need to look at Management, Government, and Competitive advantages. GBT is run effectively by it's management and they have efficient capital allocators but very conservative in terms of financial management. The management seems to be forward looking as they proactively try to address the potential threat posed by e-commerce. These efforts have enabled BMTC to get a market share of close to 30% in Quebec, well ahead of Leon's, its main competitor. Government plays a very minimal impact on the sustainability of the franchise. BMTC has been active in the Quebec marketplace for upwards of 50 years and have developed a number of competitive advantages in that time. They spend a considerable amount on marketing to ensure that they're in the front of customer's minds when it comes to purchasing furniture. Through the three brands, they're able to effectively target most consumers, from low to high-end, which helps insulate them from negative fluctuations in economic conditions that could drive consumers to the lower end of the value spectrum. There are questions of the sustainability of BMTC's competitive advantage, however, given their unique positioning within the Quebec market and the positive steps that management has taken to ensuring that value continues to be created, we believe that the probability of the franchise being sustained is 60%. The second pass ROIC falls to 30.2% (see **Figure 1.12**) still above the WACC of 6.5%. However, we do not believe that GBT is a growth stock as it is very likely that a big competitor from outside Quebec or Canada can come in erode its customer base over a period of time.

Intrinsic Value

Based on our assessment, the intrinsic value of the firm per share is **\$21.85**.

Recommendation

With a 1/3rd margin of safety on the intrinsic value, we recommend that the entry price be **\$14.56**. Since the current price is \$, we would **not recommend** purchasing shares of BMTC.

Team 4: Alex Machielsen (250339231), Partho Roy (250938860), Rohit Sawhney (250941939), Ton Bui (250939678), Varun Maryda (250479155)