THE GLOBE AND MAIL

Patience pays off with Accord Financial

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It may be a company you've never heard of, but the niche lender has low debt levels and pays dividends like clockwork

FABRICE TAYLOR

taylor.fabrice@gmail.com

We live in low-growth world, so when a 40-year-old company posts a 100-per-cent increase in net income, investors take notice. At least they should.

They don't seem to have noticed Accord Financial Corp.'s firstquarter results, assuming they've even heard of the company.

But it's with companies you've never heard of, those with no analyst coverage because they don't need Bay Street's money, that you often make the best returns.

Accord is a niche lender whose customers, a variety of businesses, borrow short-term money against their working capital, namely inventory and accounts receivable. Some of what Accord does is called factoring, which means paying a company, say, 97 cents and getting a receivable worth $1, which it will collect on in a few weeks.

As you can imagine, when you earn a little more than three percentage points of interest in a short period of time, you can earn a nice yield on your capital when that rate is annualized.

And if you can borrow at good rates, you make a good return.

Ken Hitzig, Accord's chairman, started the company in 1978, and it has been profitable for 33 straight years. It has also paid a dividend 27 straight years, which it increases every two years like clockwork. A few years ago, it paid a big, special dividend of $1.50 a share.

Return on equity has averaged about 14 per cent over the past three years, which isn't eye-popping, but the company's debt levels are relatively low, with a debt-to-equity ratio of 3 to 1 - that's half what a typical niche lender may employ. Book value per share is up about 35 per cent in that same period despite the fact that the company has paid out a substantial amount of its earnings in dividends.

So it's a good business - insiders certainly think so. Not only do they own a lot of stock (and even more when family is included), they also lend money to the company at rates below what Accord pays the banks it borrows from . Based on my conversations with management, I think Accord is finding new niches that will accelerate earnings further. I note that the rate at which the company has increased its dividend has slowed in the past few years, even as earnings remained healthy. I suspect it's because they see opportunities to deploy shareholder money rather than paying it out.

This is one benefit of an aligned management team. They like their dividends, and won't forgo them unless they have a better use for the funds internally.

When they pay a dividend, it will be because they don't see the point of reinvesting.

Another comforting thought is that insiders, as mentioned, have lent the company money. That tells me the risks they take will be prudent and intelligent. They will think like both shareholders and lenders. Provisions for credit losses were down sharply in the first quarter.

To be sure, this can make for a too conservative culture. I look at Element Financial and Callidus Capital Corp., both of which have wowed Bay Street with bold moves and big financings that have given them both, in a short period of existence as public companies, market values that are multiple times bigger than Accord's.

Accord earned more per share than Element last year, but it trades at a fraction of the valuation of its fellow niche lender because it doesn't share the same aggressive and ambitious growth plan. Could that change? Doubtful.

But Accord's leadership, including chief executive officer Tom Henderson, is getting on in years, and Mr. Hitzig's son, Simon, is active in the business. That could prove to be a catalyst. Barring that, the company would be an attractive acquisition target given decades of expertise and a healthy and growing customer base.

At less than 10 times what I think the company will earn this year, the stock isn't dear - even as it hits new highs - especially in the context of rising earnings.

The stock isn't particularly liquid, however, because no one wants to sell it. So if this story of accelerating returns with limited risk-taking appeals to you, be patient as you build a position. I think you'll be rewarded.

Fabrice Taylor, CFA, publishes the President's Club investment letter, for which he and The Globe and Mail have a distribution agreement.

Accord Financial (ACD) Close: $11.62, down 8¢