Kingfisher: Buy, Sell, or Hold?

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I'm always searching for shares that can help ordinary investors like you make money from the stock market.

Right now, I am trawling through the FTSE 100 and giving my verdict on every member of the blue-chip index.

I hope to pinpoint the very best buying opportunities in today's uncertain market, as well as highlight those shares I feel you should hold... and those I feel you should sell.

I'm assessing every share on five different measures. Here's what I'm looking for in each company:

Financial strength: low levels of debt and other liabilities;
Profitability: consistent earnings and high profit margins;
Management: competent executives creating shareholder value;
Long-term prospects: a solid competitive position and respectable growth prospects; and
Valuation: an underrated share price.

A look at Kingfisher
Today, I'm evaluating Kingfisher (LSE: KGF) , a home-improvement retailer, which currently trades at 315 pence. Here are my thoughts:

1. **Financial strength**:

The company is in solid financial health with a net cash position of 38 million pounds and financial obligations comfortably covered by operating profits a hefty 180 times. However, the company has leasehold debt valued at 3.5 billion pounds.

2. **Profitability**:

During the early part of the decade, Kingfisher went on a business reorganization -- shedding off "non-core" segments while acquiring and developing businesses that focused on its core home-improvement business. Unfortunately, these moves also coincided with weak trading conditions in its major markets that led to declining profits and margins. For the past decade, revenue per share grew by a paltry 1%, while earnings per share did not do too well either, growing by 4% per year. Operating margins and return on equity ranged from 4% to 9% and 5% to 10%, respectively. Also, during the peak of the financial crisis in 2009, the company had to cut dividends by 50%.

For the last five years, however, the company's performance has steadily improved -- even though revenue per share has grown by only 1%, adjusted earnings per share and dividends per share have increased by 13% and 16% annually, respectively, while return on equity and operating margins have nearly doubled from 5% in 2009 to 9% in 2013 and 4% in 2009 to 7% in 2013, respectively.

3. Management:
Under chief executive Ian Cheshire's leadership, the company has been able to eliminate 1.6 billion in net debt, improve the group's standard return on capital from 5.8% to 10.7%, increase profits and margins, and expand and modernize its business -- all the more impressive considering the tough macro environment of the last few years.

4. Long-term prospects:
Kingfisher is Europe's largest home-improvement retailer and the third-largest in the world with more than 1,000 stores in eight countries and annual sales of more than 10 billion pounds. The company owns market-leading brands such as B&Q, Castorama, Brico Depot, and Screwfix. It is the market leader in the U.K., France, and Poland, which account for 42%, 40%, and 10% of total revenues, respectively. For the last five years, the company embarked on a highly successful development program called "Delivering Value" focused on improving cash returns and strengthening the company's competitive position in home improvement. The second phase of the program, "Creating the Leader," was initiated in March 2012, which builds on the success of "Delivering Value." It aims to make Kingfisher the leader in home-improvement retailing by making home improvement easier for customers, offering a common core product range, and expanding into existing and new markets.

5. Valuation:
Shares are trading at a trailing price-to-earnings (P/E) ratio of 13 below its 10-year average P/E of 14 and the sector P/E of 15. It also sports a dividend yield of 3.3%, twice covered.

My verdict on Kingfisher
During the start of the new millennium, Kingfisher had several businesses ranging from drugs to beauty to real estate. This lack of focus helps explain the company's middling performance for the past decade. However, during the last few years, it seems the company has learned from its past mistakes and is now concentrating on what it does best: home improvement. Therefore, despite poor results for the past 10 years, I believe Kingfisher has a bright future ahead and recent headwinds have more to do with the difficult macro environment rather than a problem with the company's operations in general. It is a strong business with international market-leading brands, a strong balance sheet, and a solid platform upon which to build future growth.

So, overall, I believe Kingfisher at 315 pence looks like a buy.

Link: http://www.fool.com/investing/international/2013/04/29/kingfisher-buy-sell-or-hold.aspx