This Is Why Best Buy May Best the Competition

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The Best Buy (**NYSE:BBY**) story is one that is fast becoming a significant theme for Wall Street stocks. The company which was ailing in the years going into the pandemic is emerging from the crisis stronger and in a better position. In this case, it is the combination of pandemically life and work-styles, the accelerating shift to everything digital, and the company's internal efforts to turn business around that have the stock looking so attractive. Not only has the business been boosted by the pandemic but profitability is better than ever, and there is an outlook for a double-digit earnings CAGR over the next 4 to 5 years at least.

The analysts are warming

The analysts are bullish on Best Buy with both the consensus sentiment and price target moving higher over the past 30 and 90 day period. The caveat is that the consensus price target while rising is lagging the price action and implies the stock is fair to slightly overvalued. The good news is that the trend in sentiment is upward and still rising. The most recent analysts' notes, all issued in the wake of the very-strong 3Q results, have a consensus closer to the $125 to $135 range than the $112.50 to $115 the stock has been trading for recently. That's an upside in the range of 10% and there are both the dividend and buybacks to consider.

Bank of America recently came out with a bullish call on Best Buy referring to it as a "sleeper win". Analysts Curtis Nagle made note of the company's record cash position, low leverage, and ample room for capital returns in his comments. As of the last reporting period the company had over $5.8 billion or $22.40 per share in cash with a leverage ratio of only 0.28 and 48X coverage. The company already has a history of dividend increases so an 8th is certainly not out of the question. With the payout ratio sitting near 28%, an expectation the company will post a strong 4th quarter, a positive outlook for business, and a 20 percent distribution CAGR and the odds the 8th increase will be worth roughly $0.44 annually are very high.

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"We have long seen BBY as one of the highest quality names in our coverage and we are taking a more positive view given: 1) our belief that BBY should come out of the COVID-19 period in a stronger and more profitable position; 2) there is room for a continuation of steady growth in multiple segments and compares for the next several quarters are easy; and 3) valuation is attractive with shares trading at 14x 2021E EPS and below other stay at home beneficiaries and hardline peers on the whole."

Best Buy is undervalued

Best Buy is trading at only 15X this year's and next year's earnings which makes it **quite the bargain**. The valuation implies the company will see no growth next year which is crazy because growth accelerated in the 4th quarter and is supported by consumer trends, work-from-home, the housing boom, and several other secular factors that have years if not a decade or more to run.

As for value, the 15X earnings is a deep-value compared to the

broad market and peers with comparable business. The S&P 500 is trading closer to 22X earnings and pays less than 1.5% while leaders in the consumer discretionary group like Target, Walmart, and Costco trade in the 22X to 32X earnings range. Even Tractor Supply Company, another up and comer in the new retail world, is trading at 22X its earnings.

Shares of Best Buy have been stuck in a trading range since the stock hit a new all-time high in late-summer 2020. The price action has begun to look bullish again, however, and may lead the stock higher as the next earnings report approaches. The company is expected to release the 4th quarter results on or around the 25th of February and the news will most likely move the market. If the report is acceptably strong investors might expect this stock to set a new all-time high somewhere near $140 or $145. If not then a continuation of the range is the most likely outcome. Either way, there is a safe and growing dividend and share buybacks to help support the market.

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