The “Touchable” Mr. Price Group

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In a poignant scene from the movie ‘The Untouchables’, a mafia hitman writes the word “Touchable” on the wall with his finger dipped in the blood of his victim, one of the heroes of the story.

Mr. Price Group is the hero of my story today. I have the utmost respect and admiration for this wonderful business, its people and leadership. As a businessman and citizen, to me it is an inspiring long-term South African success, creating thousands upon thousands of sustainable jobs and opportunities. However, that doesn’t mean as an investor I have to automatically respect its share price and valuation multiples.

Something important changed in the late 2000’s and 2010’s; its shareholder register became increasingly dominated by offshore based investors. The ever-increasing share price resulted in increasingly higher valuation multiples, peaking at 25 times earnings on high operating profit margins and 11 times book value.

In short, at some point in time Mr. Price Group transitioned and became an “Untouchable”. A sure thing. A one-way bet. Just don’t ask any difficult questions.

Fast forward to the present day. The share price has halved from January 2018. If it was still an “Untouchable”, investors would simply close their eyes and buy this dip.

However, I believe the market today wrote a rather large “Touchable” on this wall. The price declined nearly 14% today on huge trading volumes following a seemingly standard business update along the lines of ‘it’s-weak-out-there-but-we’re-still-doing-okay’. Following this decline it is at a price to earnings multiple of 13 and 5 times book value.

As an “Untouchable” one could pay just about any valuation multiple for Mr. Price Group and be just fine. As a “Touchable” it may be important to bear in mind that it traded on a price to earnings multiple of 8 times and 1.6 times book value in the early 1990’s and early 2000’s. In both cases it stayed at those low valuation multiples for 3 years.

In closing; Mr. Price Group *as a business* is fortunately not a corpse, by any means. We watch and wait, patiently.

Our work continues...

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