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Posted 5/20/2004

Street Patrol

Maritime stocks that could float your boat

Affluent baby boomers are raring to buy boats. And that means the uptrend in sales is just beginning. Here are the companies that can ride this wave.

By Robert Walberg

Boating is a passion I don't share. It's not that I dislike the spray of water on my face as I race across Lake Michigan in a friend's speedboat, it's just that any body of water deeper than a bathtub terrifies me. Having never learned how to swim, I generally do my best to avoid the water. To me, a boat needs to be about the size of the QE2 to be considered seaworthy.

Consequently, it was with great trepidation that I agreed to review the marine industry. But I'm happy to report that while the process didn't cure me of my fears, it did give me a newfound appreciation for this fast-growing industry.

For a little more than a year now, the boating industry has enjoyed sales growth of better than 20%. New product lines, cheap financing and the strengthening economy converged to form this perfect buying storm. With the boating sector having recently reported better than expected first quarter numbers, and in most cases guided second-quarter and full-year earnings estimates higher, you might think that the sector would be enjoying a wave of buying on Wall Street. Until just a few weeks ago, that's just what was happening as **Brunswick** (BC, news, msgs), **Marine Products** (MPX, news, msgs), **MarineMax** (HZO, news, msgs) and **West Marine** (WMAR, news, msgs) all set new 52-week highs in April.

BRUNSWICK GENUINE INGENUITY

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Change	-0.170

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Rough weather?

Since peaking last month, the stocks have declined by an average of 21%. Could this be a case of investors selling into the good news? Sure. But the decline would not have been so steep if it weren't for the fact that oil prices happened to be surging to their highest level in decades at the very same time. Toss in fears of higher interest rates, and investors have

MARINE PRODUCTS CORPORATION

reasons for concern regarding the pace of industry growth later this year.

There is some merit to these concerns. But investors willing to ride out the choppy waters over the short-term are likely to find smooth sailing ahead as several long-term trends are working in the industry's favor. The aging of the population is a biggie, as retiring baby-boomers moving to warm climes will be spending their money on everything from new hips to new condos to new boats. With the baby-boomer effect expected to kick in over the next few years, the uptrend in boat sales is just beginning.

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Another dynamic that isn't well understood is the fragmented nature of the industry. This is still a sector that consists mostly of one-store dealerships. However, as demand grows, look for the industry to consolidate into fewer and fewer hands -- just as the housing sector has done over the past five years. Well-managed companies such as MarineMax and Marine Products that have begun to build a broad regional and national presence will be well positioned to capture share.

Finally, financing is still likely to be relatively cheap (by historic standards), even if rates edge higher over the next year. Boating companies are also becoming more aggressive in offering financing deals. That makes it easier for first-time buyers to realize their dream and for long-time boat enthusiasts to move up to something bigger and/or faster.

Getting on board

So how do investors participate in this promising, fast-growing industry even if they are landlubbers like me? Basically, there are four decent-sized publicly traded companies that focus on the marine industry. Brunswick is far and away the biggest, most recognized brand in the group, though this 160-year-old, Illinois-based company is still probably better known for bowling than boating. But bowling and billiards is the company's smallest unit, while boating is its biggest. Brunswick manufactures the industry-leading Mercury and Mariner boat motors, as well as the ever popular Sea Ray, Bayliner, Maxum, Baja, Princecraft, Boston Whaler and Hatteras Yacht boat lines.

Obviously, this is a company poised to exploit the growing demand for boats.

Price	9.060
Change	+0.180

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West Marine

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We’re already seeing just that, as last quarter’s strength in engine and boat sales (up 27% and 35% respectively) compelled the company to guide fiscal year 2004 earnings up from a range of $2.10 to $2.30 per share, to between $2.45 and $2.65. At present, the consensus estimates for fiscal years 2004 and 2005 are $2.63 and $3.18. The resulting price-to-earnings multiples of 14.6 and 12.1 times are fairly attractive when viewed against a projected long-term growth rate of 12.5%. Brunswick’s 1.26% dividend yield, and the stock’s relative strength over the past month (down only 13%), are also appealing attributes.

However, the more adventurous among you might want to consider another boat manufacturer: Marine Products. Though much smaller than Brunswick, Marine Products, through its Chaparral Boats subsidiary, is one of the three largest manufacturers of stern-drive powerboats in the United States. In fact, its Chaparral 256 SSI was this year’s recipient of Powerboat Magazines’ Award for Excellence. But speed is not the company’s only forte. A couple of year’s ago it acquired the popular Robalo line of sport fishing boats. Its strong and expanding product line has enabled Marine Products to capture share in each of the past five years. Multiples are a bit higher than the competition, but the company’s better-than-industry margins, high return on equity (30%) and strong long-term growth potential (15%) suggest that the premium is well warranted and help explain why it's my pick over Brunswick in this side of the business.

Revved up retailers

The other two companies in this space are primarily retailers. MarineMax is the nation’s largest retailer of recreational boats with 66 stores in 15 states. The company sells boats ranging from $5,000 to well over $5 million. With no other company even close to matching its scale in terms of actual stores or product breadth, MarineMax is one of those companies positioned to dominate as the industry expands. Business is very good right now as the first quarter saw a double-digit rise in same-store sales and a 0.7% jump in gross margins. A big jump in boat sales due to well-received new product lines and higher average selling prices combined to give a nice lift to earnings.

Earnings are projected to grow by 25% this year, but will slow to 14% in fiscal year 2005. Due to the rather large drop in growth, the stock’s earnings multiple for fiscal year 2004 is a relatively modest 15.7 times, while the price/sales ratio is a scant 0.56. bi

While MarineMax’s valuations are compelling, the better play in the retail side of the marine industry is West Marine. Though the company doesn’t sell boats

-- well, at least nothing more than a kayak or canoe -- it sells just about everything else boaters need or want . . . everything from clothes to electronics, with tools and coolers in between. The stores, or at least the ones in Illinois, aren't that big. They aren't that pretty to look at either from outside or in. Then again, when you sell to a narrow target market and you don't have much competition, maybe it's wise not to spend much on aesthetics.

Whatever they're doing, they're doing it right as same-store sales over the past several months have been very strong. The company also recently raised its fiscal year 2004 earnings estimate to a range of $1.45 to $1.50 from $1.40 to $1.47. With growth over the next 5 years projected at 20%, and the stock trading at 0.79 times trailing twelve-month sales and 16.7 times this year's estimated earnings, West Marine is positioned to make a big splash for growth-oriented investors.

At the time of publication, Robert Walberg did not own or control shares of any of the equities mentioned in this column.

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