Warren Buffett, Sanborn Maps and Guardian Capital (GCG.A)

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Sanborn Maps

Warren Buffett writing about Sanborn Maps in his 1958 letter to partners:

"This new situation is somewhat larger than Commonwealth and represents about 25% of the assets of the various partnerships. While the degree of undervaluation is no greater than in many other securities we own (or even than some) we are the largest stockholder and this has substantial advantages many times in determining the length of time required to correct the undervaluation. In this particular holding we are virtually assured of a performance better than that of the Dow-Jones for the period we hold it."

Sanborn Maps held a monopoly over detailed fire insurance maps for a large part of the 20th century. Their paper maps were eventually replaced with digital maps.

In 1958, Warren Buffett saw an exceptional opportunity in this company that was trading for $45 at the time (down from $110 in 1938).

The valuation

1. The operating business

   Although the operating business was in decline starting in the 1950s, it was still profitable and it had made about $300,000 in net profits in 1958. It paid most of those profits out in dividends.

2. The investments on the balance sheet

   Sanborn Maps had no debt. It had $228,000 in cash and $2,592,706 in investment securities, <u>at cost</u>, at December 31, 1958 This is where it got interesting. The market value of those investment securities that Sanborn Maps owned was $7.0M. You therefore had about $4.4M in value not reflected on the balance sheet.

At $45, the market value of the entire Sanborn Maps company on the stock market was $4.7M. Since the company had no debt, just the value of the securities they owned was worth 49% more than the market value, or $67 per share. This did not even include the value of future profits, inventories and fixed assets.

Sanborn Maps balance sheet:

Balance sheet, as of Dec. 31

	1959	1958
Assets:		
Cash	$425,831	$227,852
Accts. receivable	444,430	414,860
Inventories	830,331	1,068,785
Prepayments	4,726	6,404
Total current	$1,705,319	$1,717,902
Fixed assets, net	154,356	155,540
Invest., cost[1]	2,601,873	2,592,706
Deferred charges	6,000	—
Total	$4,467,547	$4,466,148
Liabilities:		
Wages payable	$8,494	$6,908
Accounts payable	29,610	19,814
Fed. income tax	77,608	100,987
Other accr. tax	45,555	43,140
Total current	$161,267	$170,850
Deferred income	—	5,550
Capital stk. ($25)	2,625,000	2,625,000
Retained earnings	1,681,281	1,664,749
Total	$4,467,547	$4,466,148
Net current assets	$1,544,052	$1,547,052
Net tang. per sh.	$41.01	$40.85

[1]Mkt. value: 1959, $7,349,323; 1958, $6,972,884.

Source: Moody's Manual (1960)

After thorough investigation, Warren Buffett decided this was an outstanding opportunity and explained he put 35% of his and his clients' portfolios in Sanborn Maps in his 1959 letter:

"Last year, I mentioned a new commitment which involved about 25% of assets of the various partnerships. Presently this investment is about 35% of assets. This is an unusually large percentage, but has been made for strong reasons. In effect, this company (Sanborn Map) is partially an investment trust owning some thirty or forty other securities of high quality. Our investment was made and is carried at a substantial discount from asset value based on market value of their securities and a conservative appraisal of the operating business."

Warren Buffett ended up controlling 40% of Sanborn Maps stock and he made a huge return on his investment.

From his 1960 letter:

"Last year mention was made of an investment which accounted for a very high and unusual proportion (35%) of our net assets along with the comment that I had some hope this investment would be concluded in 1960. This hope materialized. The history of an investment of this magnitude may be of interest to you."

In 1960, Warren Buffett got a return of nearly +23% and the Dow did worse than -6%. The main reason: Sanborn Maps.

Guardian Capital

Guardian Capital is an asset manager based in Toronto founded in 1962 that manages over $50B.

It currently trades around $44.

The valuation

1. The operating business

   The operating business is growing, the opposite situation as compared to Sanborn Maps, having tripled in size in the last 10 years. It is very profitable. It made $110M in operating income in the last 12 months and averaged $66M in operating income between 2020-2022. It pays good dividends.

2. The investments on the balance sheet

   Guardian Capital has no long-term debt. It had $73M in cash and $1.3B in investment securities, at market value, at March 31, 2023. This is where it gets interesting.

At $44, the market value of the entire Guardian Capital company on the stock market is $1.1B. Since the company has no long-term debt, net of the $127M in short-term loans, the value of the cash and securities they own is worth 18% more than the market value, or $52 per share. This does not even include the value of future profits and growth.

FINANCIAL STATEMENTS — FIRST QUARTER REPORT 2023

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at ($ in thousands)	March 31 2023	December 31 2022
ASSETS		
Current assets		
Cash (note 15)	$ 73,317	$ 54,894
Interest-bearing deposits with banks	75,541	67,446
Accounts receivable and other	51,341	48,398
Income taxes receivable	9,906	6,002
Securities backing third party investor liabilities (note 3)	55,999	64,895
Discontinued operations (note 15)	–	297,223
	266,104	538,858
Securities (note 4)	1,301,484	660,413
Other assets		
Deferred tax assets	1,193	794
Intangible assets	95,279	96,886
Equipment	24,872	25,302
Goodwill	42,483	42,519
	163,827	165,501
Total assets	$ 1,731,415	$ 1,364,772
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	$ 127,404	$ 131,566
Third party investor liabilities (note 3)	55,999	64,895
Client deposits	61,780	59,080
Accounts payable and accrued liabilities	72,163	79,772
Lease obligations	2,160	1,647
Income taxes payable	72,247	1,627
Due to non-controlling interests and other liabilities (note 6)	28,859	28,894
Discontinued operations (note 15)	–	141,992
	420,612	509,473
Lease obligations	21,924	22,273
Due to non-controlling interests and other liabilities (note 6)	13,291	12,973
Deferred tax liabilities	37,899	37,194
Total liabilities	493,726	581,913
EQUITY		
Shareholders' equity		
Capital stock (note 7a and 7b)	17,463	17,559
Treasury stock (note 8a)	(34,061)	(35,569)
Contributed surplus	25,621	28,460
Retained earnings	1,209,493	733,287
Accumulated other comprehensive income	23,530	24,127
	1,242,046	767,864
Other equity interests	(4,357)	14,995
Total equity	1,237,689	782,859
Total liabilities and equity	$ 1,731,415	$ 1,364,772

See accompanying selected explanatory notes to consolidated financial statements.

Guardian Capital is a growing company and they have a great track record. Compared to Sanborn Maps, the stock actually returned 17% per year for someone who invested 10 years ago.

Conclusion

Sanborn Maps was selling at a negative valuation in the 1950s. Its operating business was in fast decline but it still was an outstanding opportunity.

Guardian Capital is also selling at a negative valuation. Yet, in this case, this is a strong and growing business with a great track record of organic growth and growth through acquisitions.

I think this is an outstanding opportunity.

Why does this opportunity exist?

That is hard to say but I will name 3 possibilities:

1. Under-the-radar Canadian company. A $1B market valuation is small in the stock markets. This is also on the Canadian market. Therefore, not that many people are looking at this.
2. Effective control of votes by family of previous CEO. Yet, management and the family have done a great job creating shareholder value in the last 10-15 years so I think we can trust them.
3. Sale of division to Desjardins for $750M occurred in Q1 2023 and the market may not be completely aware of this huge cash influx the company received in March.

Why am I sharing it here?

I like to share my ideas and I also think it has reached a weight in my portfolio that I am comfortable with.

If you value Guardian Capital at 11X earnings for the operating business + cash and securities net of short-term debt, you get a valuation of $1.8B or $72. If you value the operating business at 2% of assets under management, you get a valuation over $2B or over $80.

Of course, you will get fluctuation from the large investment portfolio but even without this portfolio, you could justify the valuation so the downside seems very protected here.

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