



Who Stands to Benefit When Mining and Metals Pick Up?

Description

According to a recent [Ernst & Young study](#), prospects appear upbeat for **Finning International** ([TSX: FTT](#)), the largest dealer of heavy equipment manufacturer **Caterpillar** ([NYSE: CAT](#)) worldwide.

Covering the April–October 2013 period, the E&Y study shows that out of 1,600 executives from 50 countries around the world, 54% look forward to greater focus on capital planning over this period. This marked an improvement from 44% in October 2012.

Even more significant, 57% believe that the global economy is improving, compared to just 21% in the previous reading. Optimism has likewise been expressed on credit availability at 46%, compared with 30% previously; 44% of the companies are also focused on growth, up from 38% in the previous reading.

Wide and strategic global footprint

As the largest Caterpillar dealer, Finning is well positioned to draw benefits from this heightened level of international activity in mining and metals. The company operates in some of the most resource-rich areas of the world, including those in Western Canada, South America, UK and Ireland. Domestically, Finning has more than 30 dealerships in Alberta, British Columbia and the Territories.

Finning's South American footprint covering Chile, Argentina, Bolivia, and Uruguay, is based in the Chilean capital of Santiago for good reason. A mining powerhouse, Chile is tops in world copper production and is among the five leading global producers of silver and molybdenum. The major mining companies in Chile are [projected](#) to spend close to \$30 billion in expansion in the next few years.

Close-knit tandem poses competitive edge

To capitalize on these opportunities, Finning can bank on the sustainable competitive advantage and compelling customer value provided by its strategic partner, Caterpillar. This potent combination of Caterpillar product and Finning service manifested anew last year when Finning acquired from Caterpillar part of the distribution of the Bucyrus product line, which consists of a range of material removal and material handling used in surface and underground mining.

Generating revenue from both equipment sales and support services (46% and 43% of total 2012 sales, respectively), Finning also ramped up ahead of schedule a new 16-bay service facility in Fort McKay, AB. This after the company noted strong interest from oil sands producers and contractors around the area.

Finning's hidden strength

In addition, Finning has Alberta locations in Edmonton and Camrose just west of Hardisty, the site of **TransCanada's** oil terminal that's planned to be linked to Steele City, Nebraska, via the 1,179-mile Keystone XL pipeline.

This pipeline project could serve as icing on the cake when it's considered alongside the tailwinds E&Y expects from the global mining and metals sector.

The stocks

Caterpillar trades with a P/E of 11, as does Finning. Over the past 10-years, when Caterpillar has traded with an earnings multiple between 11-12, FTT has averaged a multiple of 15.2, which indicates FTT may be oversold at current levels.

In addition, over this 10-year period, FTT has warranted a premium multiple over Caterpillar that has averaged 1.4 times. If this were to mean revert, FTT would trade with a multiple of 15.4.

If we apply a multiple of 15 to FTT's trailing earnings, we find that the stock could be worth about \$30, or 36% higher than where it currently sits.

Final take

To recap, if the E&Y predicted uptrend in the global mining and metals sector comes to fruition, both of these stocks are poised to bounce. While both offer opportunity, it appears Finning's valuation is currently the more discounted of the two.

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The original version of this post was created by Fool.com contributor Arturo Cuevas.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CAT (Caterpillar)
2. TSX:FTT (Finning International Inc.)

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