



Capitalize on Finning International Inc.'s Massive Share Buyback

Description

Since its founding over 80 years ago, **Finning International Inc.** ([TSX:FTT](#)) has quietly become the world's largest dealer of **Caterpillar** parts and vehicles. Operating in seven countries (Canada, Chile, Argentina, Bolivia, Uruguay, U.K., and Ireland), Finning offers an overlooked business that offers strong free cash flow generation, returns on capital, and dividend payments.

While there are reasons to believe the future won't be as rosy due to a difficult commodity pricing backdrop, Finning has the structure in place to continue solid financial results.

Strong free cash flow support

The company has set up its business to generate large amounts of free cash flow over the next few years. Despite spending over \$500 million in capital expenditures over 2011 and 2012, spending fell to only \$250 million over 2013 and 2014. This year the company is only on pace to spend only \$50 million on capital expenditures.

This ability to control spending has allowed Finning to generate over \$1 billion in free cash flow in the past 18 months alone. At current prices investors are getting a near 10% free cash flow yield. Even on an earnings basis, the company only trade at 13.5 time price to earnings.

Massive share repurchase with insider buying

On May 7, 2015, Finning announced a share repurchase program that will buy back 10% of the outstanding shares. With shares down 33% from their 52-week highs, management expressed their belief that share repurchases represent an attractive investment opportunity for the company.

It seems like the management team is putting its money where its mouth is. Just this month Chief Operating Officer Juan Villegas reported buying nearly \$200,000 for his personal portfolio. A few weeks ago Chief Investment Officer David Cummings also purchased roughly \$200,000 in shares, with Vice President Kevin Tatlow adding over \$40,000.

Growing strategically

With one of the industry's longest operating histories, Finning has been able to take advantage of its deep industry relationships to make strategic acquisitions at attractive prices.

After the Kramer family announced their retirement, the family sold its ownership of **Kramer Ltd.** to Finning for \$230 million. This allowed the company to become the sole Caterpillar dealer across the entire Saskatchewan region. With 2014 revenues of \$275 million, Finning was able to purchase the company for less than 0.9 times sales. The acquisition is expected to be immediately accretive to EPS and strengthen the company's foothold on the Canadian market.

Too much value to pass up

It seems as if the market has decided that the macro-economic backdrop will be too difficult for the company to navigate, valuing the shares at an attractive 10% free cash flow yield. With an ability to match spending to fluctuating conditions, however, Finning looks to exit the current downturn even stronger than before. With ongoing strategic acquisitions at fantastic prices, combined with a massive share repurchase and insider buying, investors should get interested.

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1. Editor's Choice

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1. TSX:FTT (Finning International Inc.)

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