



New Flyer Industries Inc. Is Set to Dominate its Industry

Description

While it doesn't have the brand-name recognition of other vehicle manufacturers, **New Flyer Industries Inc.** ([TSX:NFI](#)) is North America's top selling transit bus manufacturer and parts supplier. The company controls 48% of North American new sales and 33% of the aftermarket space. Its dominance in its respective markets has helped push its stock price up 170% in only four years.

Fortunately, the company is experiencing a few tailwinds that should help push the share price up even further.

The industry is now an oligopoly

In 2011 there were five major manufacturers of heavy-duty buses in North America. In 2012, however, **Daimler AG** announced that it was shutting down its Orion brand that controlled roughly 7% of the market. In 2013 New Flyer purchased **North American Bus Industries**, which controlled 10% of the market for \$80 million.

These moves gave New Flyer a 48% market share and cut down the number of manufacturers from five to only three. Industries that experience a rapid reduction in operators typically see more pricing stability and higher margins.

Aftermarket sales give even more upside to margins

Aftermarket sales for equipment and parts are typically more profitable than new sales. For New Flyer, aftermarket sales comprise 22% revenues, but contribute 45% of pre-tax income.

These sales are also more predictable than original equipment sales as they are based on wear and tear. While it's possible to put off buying a new fleet of buses, it's not as easy to delay repairing existing buses. New Flyer services a large base of over 80,000 vehicles, accruing a stream of consistent, high margin revenues due to ongoing repair needs.

With a leading 33% share of the aftermarket parts market, New Flyer should continue to use its scale to grow this incredibly profitable and stable business.

Undemanding valuation

New Flyer's stock seems to be flying under the radar despite its industry-dominating positions and high earnings growth potential. At its current price, shares only trade at 14.3 times next year's EPS estimate of \$1.07. Over the past 12 months the company has generated \$67.3 million in free cash flow, resulting in a nearly 8% free cash flow yield.

Shares also have a dividend yield of over 4%. Dividends have been paid to shareholders for 116 consecutive months since the company's IPO.

The perfect combination

While New Flyer may see sales fluctuations from new equipment sales, they have a growing and stable aftermarket business that contributes almost half of profits. With the elimination of two major competitors, the company also has sales and margin-growth opportunities in the rest of its business.

Even with an attractive future, shares trade at a very reasonable valuation with a healthy yield of 4%. If you're looking for an undiscovered gem that should provide solid returns, New Flyer is for you.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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1. TSX:NFI (NFI Group)

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