



## 5 Reasons Linamar Corporation Is a Great Addition to Any Investor's Portfolio

### Description

#### Diversification

**Linamar Corporation** ([TSX:LNR](#)) has made efforts to diversify its business by increasing its product offering (with a focus on vertical integration), its geographic reach, and by attempting to get new customers for its existing products (energy and industrial OEMS).

The company has had more than 150 launches in 2014, representing more than \$550 million of additional business, and has expanded its product offering to become increasingly vertically integrated. Finally, in an attempt to reduce the cyclical nature of the business, Linamar bought Skyjack, which has been outperforming recently.

#### Strong performance of the industrial segment

The industrial segment, which is mostly made up of 100%-owned Skyjack, is experiencing strong growth and strong margins. According to an IPAF (International Powered Access Federation) report, the U.S. Aerial work platform market grew 10% in 2014 to reach \$7.9 billion, with the market expected to exceed \$9 billion in 2016.

Sales in the industrial segment increased 30% in the latest quarter and operating margins were 19.2%. According to management, Linamar has been increasing market share in all major product categories. An increase in non-residential construction and fleet replacement should drive growth going forward, along with an expansion of the company's product offering.

#### Healthy backlog

Continued business wins have resulted in a backlog of \$3.4 billion in annualized sales. New wins in 2014 were \$1.1 billion, with particular success in products for the new 9 and 10 speed transmissions that are launching in North America.

#### Strong management team with significant insider ownership

The company's CEO is Linda Hasenfratz, who, over the years, has more than proven herself as deserving of her title. She has led the international expansion of Linamar and quadrupled the size of the company, while maintaining profitability.

She saw the company through the 2008 economic crisis, and not only survived, but grew market share at that time by focusing on manufacturing highly engineered metallic products for powertrain systems. Frank Hasenfratz, who is on the board, owns 23% of shares outstanding, and Linda Hasenfratz owns 6%. Total insider ownership is 30%.

### **Attractive valuation**

The stock appears to be attractively valued. Looking at Linamar versus **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), Linamar has stronger operating margins (12.1% versus 8.3%) and stronger sales growth (23% sales growth in the first six months of the year versus a 13.6% decline for Magna), and so I would make the argument that it should trade above Magna's multiple.

Linamar trades at just under 11 times 2015 expected consensus EPS, and Magna trades at roughly 14 times 2015 expected consensus EPS.

Lastly, the company's recently announced \$1.2 billion bid for Montupet SA is easily handled by its balance sheet, and, if approved, takes the company further along in its strategy to become more of a global player and to increase the vertical integration of the business.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:MGA (Magna International Inc.)
2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)

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### **Author**

karenjennifer

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