



## Element Financial Corp. Has Plenty of Room for Rapid Growth

### Description

As one of Canada's best-performing financial stocks, **Element Financial Corp.** ([TSX:EFN](#)) is poised to continue its success. Primarily, the company finances the purchase of cars, trucks, aircraft, rail cars, and other transportation equipment.

Already North America's third-largest lender for commercial fleets ranging from **FedEx Corporation** trucks to Bobcat loaders, Element will likely double its assets to \$20 billion by the end of 2016. After its recent \$8.6 billion acquisition of **General Electric Company's** fleet operations in the U.S., Mexico, Australia and New Zealand, Element is well on its way to outpace its financial targets. Element's CEO is already talking about spending another \$5-6 billion to buy another North American fleet company sometime in 2016.

There are plenty of reasons to believe that the company can pull off its major growth aspirations.

### The fleet-financing business is all about scale

Element has plenty of opportunity to harness market share momentum given that the industry is highly conducive to scale. This means that the firm's recent and future mega-deals provide the opportunity for even more growth after completion.

The company already controls 1.2 million vehicles, making it **Ford Motor Company** and **General Motors Company's** largest commercial buyer. Its customer list includes massive corporations such as **Tim Hortons Inc.**, **Comcast Corporation**, and **Home Depot Inc.** And while fleet financing isn't the most exciting business, it has proven to provide high returns.

"Fleet is a boring business, which is a great business," says Element's CEO. "Credit losses of 0.03% over 20 years and 72% of clients are investment grade. It's a solid business."

### Acquisitions, economies of scale, and plenty of financing ensures future growth

Forecasted earnings-per-share growth is for 80% in 2015 and 40% in 2016 largely due to the company's recent acquisitions. As mentioned previously, however, these acquisitions have the

potential to provide momentum to Element's previous asset base. One of the biggest influences of profitability is the cost of capital. With a bigger asset base, Element should be able to keep its costs at the bottom of the industry.

Even more importantly is Element's ability to continue consolidating the market. Since its IPO, Element has been able to successfully finance nearly all of its acquisitions by issuing equity. Every equity raise has been met with market optimism, a huge signal of confidence from shareholders. All this adds up to a low debt load, which is incredible, especially for a finance-related company. If management decides to start leveraging up the balance sheet, returns for equity holders could multiply significantly.

### **Well positioned for any environment**

Element should be able to navigate any type of market condition. With plenty of consolidation and acquisition opportunities ahead, it should be able to continue growing at impressive rates. If the economy falters, however, it can lean on its strong balance sheet to weather any temporary storm, while also maintaining the ability to add debt and continue growing assets without pause.

In all, the investment backdrop for Element shares looks attractive, especially over the long term.

### **CATEGORY**

1. Investing

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