Element Financial Corp. Proved it Is Still a Growth Giant

Description

Can you name North America's third-largest lender for commercial fleets that range from **FedEx Corporation** trucks to Bobcat loaders? Most people can't, which is why this high-growth stock is one of the cheapest you'll get in today's market.

Element Financial Corp. (TSX:EFN) finances the purchase of cars, trucks, aircraft, rail cars, and other transportation equipment. The company was aiming to double its asset base to $20 billion by the end of next year. It might actually achieve that growth by the end of *this* year. And, as we'll see, this isn't growth for the sake of growth, for there are some attractive reasons for building scale in the industry.

Faster growth than many thought possible

This quarter, Element had assets of roughly $19 billion. In the same quarter last year, this figure was less than $9 billion. Clearly, management has made growth a top priority. What has made this possible?

Earlier this year, Element spent $8.6 billion acquiring **General Electric Company's** fleet operations in the U.S., Mexico, Australia, and New Zealand. 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 think that growth by acquisitions should pay off. The fleet-financing business is all about scale, meaning that a company that can offer more vehicles in more geographies not only has a cost advantage, but will also be able to meet customer needs better.

Element already serves companies like **Tim Hortons Inc.**, **Comcast Corporation**, and **Home Depot Inc.** As you could imagine, these international firms require massive amounts of vehicles, sometimes in multiple countries. The massive scale necessary means that 99% of fleet-financing companies can't even compete for these contracts, putting Element in an enviable position.

The scale is already starting to pay off

If scale is so important in Element's industry, we should be able to see returns picking up as the company can start to leverage its cost and selling advantages. While returns on equity averaged about 9% last year, every quarter this year has achieved double-digit returns.

Earnings, meanwhile, have grown by 50% year over year to a current $0.32 per share for the third quarter. At an annualized rate, the stock trades for less than 14 times earnings. Management, however, expects to continue growing profits; it believes it should reach $1.61 per share for 2016. At this level, the stock would trade at less than 11 times earnings. In both scenarios (both low and high growth), shares look very cheap.

Element can capitalize by playing the contrarian

Element is headed by industry veteran Steve Hudson, who has seen plenty of economic cycles. Today, he is talking about acquiring assets that service the shale oil and gas industries, a massively beaten-down sector.

Oil is still needed to fuel the U.S. economy and, regardless of where the price is, it’s going to have to be shipped. While these deals will likely be smaller (in the $500 million range), this shows that Element is able to think long term and understands how downswings can bring attractive buying prices for opportunistic operators.

With plenty of growth opportunities left and a valuation that is cheaper than the market, Element shares look like a solid bet.

CATEGORY

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