



Linamar Corporation: Why it Could Rise 50% After Reporting Earnings

Description

On March 9, **Linamar Corporation** ([TSX:LNR](#)) traded at \$57.56 with a multiple of 8.6. After market close, it reported double-digit growth in sales and earnings.

About Linamar

Linamar has been in business since 1966. Today it is one of the top automotive suppliers in the world. It takes the 33rd place in North America and the 65th place in the world. Linamar has operations in North America, Europe, and Asia.

To fill demand, Linamar continues to expand into China; it plans to build its fourth plant in the western part of China with production expected to start by August 2017. Linamar has 56 manufacturing facilities, six research and development centres, and 15 sales offices in 17 countries.

2015 results

In 2015 Linamar's sales grew 24% to \$5.2 billion, its operating earnings increased 33% to \$597 million, and its net earnings (\$436.7 million) and earnings per share (\$6.71) were both up by 36%.

Its two business segments, powertrain/driveline and industrial, both delivered strong operating-earnings growth of 30.5% to \$440.8 million (on 24% sales growth) and 42.4% to \$156.2 million (on 23% sales growth), respectively.

Fourth-quarter results

Linamar's fourth-quarter sales grew 23.9% to \$1,243 million compared with the fourth quarter of 2014. Specifically, the sales for its powertrain/driveline segment increased by 25.1%, while the sales for its industrial segment grew 15.8%.

Linamar's fourth-quarter operating earnings were \$131.4 million, 30% higher compared with the fourth quarter of 2014. Specifically, operating earnings for its powertrain/driveline segment grew 27.6% (\$24 million), while the sales for its industrial segment increased by 45% (\$6.3 million).

Linamar's double-digit growth was thanks to favourable changes in foreign exchange rates, the business acquisitions in Europe in the first quarter of 2015, and newly launched programs in North America and Europe that helped production-volume growth, which led to earnings growth.

Solid growth for five consecutive years that should continue

Linamar has been a spectacular company. From 2010 to 2015, its earnings per share grew on average by 37% per year.

CEO Linda Hasenfratz stated, "Strategically, we have made enormous progress in 2015 in our vertical integration strategy, successfully acquiring or joint venturing with three world leading forging and aluminum casting companies. We are perfectly positioned for continued exciting market share growth driving continued exceptional performance in 2016 and beyond."

Conclusion

There's a huge disconnect between Linamar's stock price and its results. The shares are trading at a multiple of 8.6, while it should at least trade at a multiple of 11.7 in relation to the double-digit growth it's experiencing and the multiple it has typically traded at in the past few years.

In my opinion, Linamar's shares should be worth at least 50% higher than Wednesday's closing price. Perhaps it won't jump 50% right away, but with the kind of growth Linamar is experiencing, it's not far-fetched to expect capital appreciation of 20-25% in the next 12-18 months.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:LNR (Linamar Corporation)

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