



## Why Did New Flyer Industries Inc. Hit All-Time Highs Last Week?

### Description

**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. Shares have been on a tear lately, up over 100% in just the past 12 months. Last week shares hit a 52-week (and all-time) high of roughly \$30.50.

Long-term shareholders are clearly more than pleased. What's contributing to New Flyer's success?

### Set up for success

With a 50% market share, New Flyer is easily North America's largest transit bus and motor coach manufacturer. After **Daimler AG** exited the market in 2011 and New Flyer purchased **North American Bus Industries** in 2013, the entire industry was reduced to just three major players. As the dominant player in the industry (with the largest sales force and greatest economies of scale), the company was poised for success.

Fast forward to today, where 24 out of the top 25 transit authorities on the continent run New Flyer buses, and the company's committed backlog has reached \$1.1 billion. There's still plenty of growth available too, especially within the high-margin aftermarket parts segment.

With 70,000 vehicles in service, the company has the largest installed base of buses and coaches in North America. To service repair needs, New Flyer has an integrated service segment that carries the market's widest portfolio of parts as well as the industry's largest distribution network along with the shortest delivery times. For every vehicle New Flyer sells, it's usually guaranteeing itself years of reliable, highly profitable service revenue.

### Management is focused on shareholder returns

New Flyer hasn't just grown for the sake of growth. Return on invested capital reached 11.7% last quarter and has consistently been around 8-9% in recent years. While that's not the highest the market has to offer, it's fairly respectable for a capital-intensive business. It's also provides the company with plenty of excess capital to put towards growth initiatives, acquisitions, and dividends.

In the last 12 months, the company has generated \$82 million in free cash flow. Even with a 2.7% yield, only 40% of free cash flow is directed towards dividends. As the company matures and builds out its installed base, expect the payout to start increasing.

There is plenty of room to take on more leverage to boost shareholder returns as well. Since 2010, management has reduced debt from over \$400 million to just \$250 million, all the while growing the business tremendously. With debt levels down to just 54% of total equity, New Flyer could easily raise more financing to move into adjacent markets or acquire its remaining competitors.

### **Are things too expensive?**

At 25 times earnings, most investors would surmise that the valuation has caught up with the attractiveness of the business. Looking at how fast the company is growing, however, it could still be a bargain. Revenues are expected to grow 50% this year, aided by its blockbuster \$445 million acquisition of Motor Coach Industries International. If earnings estimates are correct, shares could be trading at just 11 times forward earnings. Not bad for an oligopoly business.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:NFI (NFI Group)

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