3 Companies Actually Investing in the Future

Description

Very few people are optimistic about the Canadian economy right now, and the Bank of Canada's latest Business Outlook Survey released July 4 certainly won't help. Businesses across the country are making serious cuts to capital spending. Yet executives at these three large caps are actually quite optimistic, which makes their stocks good buys at the moment.

Air Canada (TSX:AC)

In May, Fool contributor Adam Mancini highlighted some of the good things happening at the airline. His basic thesis is that Air Canada continues to transform itself into a low-cost, high-service, international airline. In 2013 Air Canada set out to lower its cost per airline seat mile (CASM) by 21% within five years. It's doing this through its low-cost Rouge airline, which adds international capacity, and by replacing its fleet with planes that are newer and cheaper to maintain.

The transformation from bankrupt airline to international superstar continues to remake the income statement. In the first quarter ended March 31, it generated $460 million in EBITDAR, a record for the company, and a 4% increase over the same quarter in fiscal 2015. It estimates that its full-year EBITDAR will increase between 4% and 8% over the $2.5 billion it generated in fiscal 2015.

Most importantly, Air Canada has taken delivery of several new 787-9 Dreamliners, which have greater capacity than the 767-300ER it is replacing. With a handful in service halfway through 2016, Air Canada expects to have 29 in its fleet by 2019. The fact that the 787 is 20% more fuel efficient than the 767 suggests it will continue to lower its CASM and increase its EBITDAR.

Air Canada's continued investment in the modernizing of its fleet should pay dividends in the future. Trading 35% below its 52-week high of $13.54, now is an opportune time to buy its stock.

Linamar Corporation (TSX:LNR)

The Guelph auto parts maker announced July 4 that it was spending $280 million to build an engine-parts plant in Morocco to meet the needs of Peugeot, which is opening a $630 million car plant in the region. Linamar expects its engine business in Morocco to grow beyond Peugeot as other car makers establish plants in the area.

Linamar invests heavily in its future, and the Moroccan plant announcement is just one indication of that commitment. According to Research Infosource, Linamar is one of Canada's top 100 corporate R&D spenders, averaging more than $70 million on an annual basis. In the past two fiscal years it has spent almost $800 million improving its business through equipment purchases, acquisitions, etc. It believes in its future in the automotive industry.

Unfortunately, investors don't see it that way right now with its stock down 23% in the last three months alone. However, where others smell fear, I see opportunity. The fact that Linamar management is willing to spend almost $300 million on a plant that, in part, will supply a company heavily reliant on Europe for car sales suggests to me that the Brexit won't be a problem.

Linamar, in my opinion, is a well-run company that invests in itself. Those are the kind of companies to own for the long term. Trading at levels not seen since 2013, I highly recommend its stock.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX)

Hey, when you accumulate more than $30 billion in debt acquiring other companies, some of which possess questionable drug pricing, it's easy to write off the company and its stock. But don't.

Its new CEO Joseph Papa is taking steps to revive the battered and bruised drug company. One of those moves was the announcement in June that it was spending $28 million on plants in Manitoba and Quebec to expand capacity for products it exports internationally. By taking baby steps like this, Papa is demonstrating that Valeant is alive and well and prepared to invest in its future organic growth.

Not many large caps are announcing capital spending projects these days, so even one seemingly insignificant is worthy of consideration. Fool contributor Demetris Afxentiou pointed out in June that Valeant's Bausch & Lomb brand is probably worth more than Valeant's current market cap of $9 billion.

But before you run out and buy Valeant stock, just remind yourself that Afxentiou also called it an "incredibly risky investment at the moment," where other options probably made more sense.

He's probably right. But if you can afford to lose 100% of your investment in Valeant, the best time to buy is before the tide turns–not after. From where I sit, it appears the tide is slowly beginning to turn.

CATEGORY

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