



## Why Linamar Corporation Rose 10% in a Day

### Description

**Linamar Corporation** ([TSX:LNR](#)) released its second-quarter results on Wednesday, and the market reacted by bidding up the shares by 10% the next day. What has the auto parts company achieved for the market to be so positive about it?

First, let's take a look at the business.

#### The business

Linamar manufactures highly engineered products, which power vehicles, motion, work, and lives. Linamar is ranked 33rd among the top 100 automotive suppliers in North America and 65th among the top 100 automotive suppliers around the globe in terms of automotive parts sales.

The company consists of two operating segments: the Powertrain/Driveline segment and the Industrial segment, which are further divided into four operating groups—Machining and Assembly, Light Metal Casting, Forging, and Skyjack.

Linamar has 57 manufacturing locations, six research and development centres, and 21 sales offices in 17 countries in North and South America, Europe, and Asia.

#### Second-quarter results

There's strong reason why the market bid up Linamar's shares. It experienced double-digit top- and bottom-line growth in the second quarter. The following results are compared with those of the second quarter of 2015.

In the second quarter Linamar increased its sales by 21% to record levels of \$1.66 billion and increased its operating earnings by 29% to record levels of \$213.7 million. Further, Linamar's net earnings rose 31% to record levels of \$157.3 million, and its earnings per share (on a diluted basis) rose 30.6% to \$2.39.

Sales increased 2.1% and operating earnings declined 3.3% for Linamar's Industrial segment.

Although Linamar experienced so-so results in this segment, investors should note that its Powertrain/Driveline segment delivered exceptional sales and operating earnings growth of 26.1% and 45%, respectively. Linamar also experienced higher margins in its Powertrain/Driveline segment due to productivity and efficiency improvements.

The overall sales growth was driven by the acquisition of Montupet S.A. in the first quarter of 2016, the newly launched programs in North America and Europe, favourable changes in foreign exchange rates, and mature programs in North America and Asia.

## Conclusion

Linamar posted record sales of \$3,175 million and operating earnings of \$385.8 million in the first half of the year. Additionally, the Powertrain/Driveline segment, which pulled the weight and made up about 84% of the sales and 79% of the operating earnings, experienced double-digit growth in that period.

Linamar has a stable balance sheet, has had strong growth in the past few years, and continues to invest in the businesses. Even after rising 10% in a day, Linamar still makes a compelling long-term investment because there's likely more growth coming as the company is expanding in China, Brazil, and India.

Most importantly, at about \$57 per share, Linamar only trades at a forward multiple of 7.5. That's pretty cheap for a company experiencing double-digit growth.

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