Can Linamar Corporation Sustain its Rally into 2017?

Description

Linamar Corporation (TSX:LNR) has been unloved by investors. In the last 12 months, the shares have declined 19%. However, since July they have rallied 27%.

How profitable is the company? Are the shares expensive at these levels? Can you expect them to head higher in the new year? Let's start with an overview of the company.

The business

Linamar was founded 50 years ago by Frank Hasenfratz, who remains the chairman of the board after his daughter, Linda Hasenfratz became the chief executive officer.

She is a fitting leader for the company. As the corporate website states, she joined the company "in 1990 and worked her way up from the ground floor, experiencing all aspects of the business including running a machine, engineering and operations management. Since her tenure as the chief executive officer started, Hasenfratz has grown the company from an $800 million enterprise to over a $5.3 billion company."

The company is based in Guelph, Ontario. It has 23,000 employees with 57 manufacturing plants, six research and development centres, and 21 sales offices in 17 countries in North and South America, Europe, and Asia.

Linamar manufactures highly engineered products, which power vehicles, motion, work, and lives. 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.

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Recent results

Despite the decline of the shares in the last year, Linamar has actually become more profitable. In the first nine months of the year, the company generated sales of $4.6 billion, which were 18.1% higher than the same period in the previous year. Similarly, it generated net diluted earnings per share of $6.16, which were nearly 18.7% higher.

Conclusion

Linamar has had good return on equity (ROE) of 10% every year since 2010. And in 2014 and 2015 it had ROE of above 20%. This shows management is an excellent capital allocator. Moreover, Linamar has a higher net margin (8.4% versus 5.7%) than its bigger peer, **Magna International**, which indicates the former has a leadership position.

At about $61 per share, Linamar trades at a low price-to-earnings ratio of 7.9, while it has been growing at a double-digit rate. In fact, some analysts believe the shares could be worth $80, which implies a potential upside of 31%.

However, the market is concerned about peaking auto sales, which could dampen growth in the near term. Still, in the next three to five years, the company is expected to grow at a rate in the high single digits.

So, at the current valuation, the company is a reasonable buy. And it would be a stronger buy if it experiences any dips.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:LNR (Linamar Corporation)

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