Stacking Up Linamar Corporation to Martinrea International Inc.

Description

Looking at these two specialty manufacturers, the financials of each company show continued profits and a well-managed operations. But only one company is more appealing of the two. Let’s take a look.

Linamar Corporation (TSX:LNR)

Shares of Linamar Corporation are currently trading at a trailing price-to-earnings ratio (P/E) of eight, which translates to a dollar amount of approximately $60. Based on this price, the dividend yield is no more than 0.70%, but shareholders are not making this investment for the dividend yield.

Shareholders have the opportunity to make money based on the capital appreciation of the shares. Over the past five years, the total price appreciation of the shares has been almost 230%! Clearly, long term investors have done very well.

Looking a little further into this company, investors will notice the total assets divided by the total liabilities have increased over time. The ratio moved from 1.77 in December 2012 to 2.30 in December 2014 to 1.85 in September 2016, bearing in mind that the company made an acquisition along the way.

The tangible book value per share has also increased from $25.30 at the end of fiscal 2014 to $28.93 as of the end of September 2016. Although the climb up the hill may be a little slow, Linamar Corporation has excellent potential to produce continued profits once the snowball begins rolling down the hill.

Martinrea International Inc. (TSX:MRE)

Trading at a trailing P/E of 8.6, shares of Martinrea International will cost an investor just under $9. Based on the share price, the dividend yield sits slightly in excess of 1.25%. This is, again, not an investment made for the yield, but instead for capital-appreciation purposes. Over the past five years, the total price return was almost negative 10%, and the dividend was only initialized in 2013. Long-term investors have not seen very good returns on their investments.

Going behind the curtain, we can see an increase in the same ratio (total assets/total liabilities). In

December 2012, the ratio stood at 1.38, while two years later the number remained almost unchanged at 1.37. As of the end of the third quarter of 2016, there's $1.47 for every dollar of liabilities. Clearly, management has done a good job in managing the company's finances.

Where Martinrea International stands tall above Linamar Corporation, however, is in calculating the share price as a function to the company's tangible book value. Martinrea International's, the tangible book value sits close to $9.10, while shares trade around the $9 mark. Let's not forget, Linamar Corporation is priced at close to $60, while tangible book value is no better than $29!

Conclusion

Stacking up two comparable companies is always fun, but, in reality, returns are often made by purchasing a security that is undervalued or, better yet, one which is swimming with the tide. Moving forward, we can only hope this sector will continue to perform well.

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