



New Flyer Industries Inc. Is Trading at 52-Week Highs: Time to Buy or Sell?

Description

When stocks rise significantly in a short period of time, investors must re-evaluate their investment, because sometimes stocks get ahead of themselves, and the risk/reward relationship gets out of whack for that very reason. Let's evaluate **New Flyer Industries Inc.** ([TSX:NFI](#)), which has seen its stock price rise to 52-week highs.

New Flyer has a \$3.1 billion market capitalization; it's a North American company that manufactures transit buses and motor coaches, and it's also a parts distributor. The stock has a one-year return of 30% and a three-year return of a 214%. This reflects the growth rate of the company and the fact that it has worked diligently over the last few years to find itself as the market leader in heavy duty buses with a market share of 46% and the leading market share of 39% in motor coaches.

Since 2012, the company has achieved a 27% cumulative annual growth rate in revenue as it has benefited from acquisitions in the space as well as the overall backdrop of increased spending to rejuvenate aging bus/coach fleets and getting more environmentally friendly transportation vehicles on the road.

More recently, 2016 results showed a very strong increase in revenue, free cash flow, and EPS with increases of 47.8%, 99.7%, and 116.5%, respectively. These results were largely due to the acquisition of MCI Industries.

One thing I am not comfortable with is the company's debt load, but it has been improving, and the cash flow the company is generating offsets the debt. The company currently has a total debt-to-capitalization ratio of 47.7%, which means that the balance sheet is looking stretched at this time.

Now, let's take a look at valuation. The stock currently trades at a price-to-earnings ratio of 17.9 times with an EPS growth rate of almost 100% in 2016. Going forward, that growth rate is expected to slow to 3.6% in 2017 and 11.7% in 2018 based on consensus analyst expectations, and the stock trades at 21.5 times 2017 expected EPS and 19.3 times 2018 expected EPS. Synergies from the acquisition of MCI Industries will continue, and the company has a good track record in this regard, so I think investors can have confidence.

The valuation is not unreasonable, and although the growth rate at New Flyer will slow and the stock has come so far, the company still faces tremendous opportunity ahead of it. I think in the short term it may be due for a breather, but over the longer term, I think the company and the stock still have good opportunity to prosper.

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