Is it Time to Sell Linamar Corporation and Cascades Inc.?

Description

As investors, we should periodically revisit our holdings to determine if it makes sense to keep holding a stock or if it is time to sell either part of a position or even a full position.

Stocks that have had a really good run in a short period of time are good candidates to be revisited, and here we look at two names that are hitting their respective 52-week highs.

Linamar Corporation (TSX:LNR)

Linamar Corp. is primarily an auto parts company that has diversified in recent years. It now has and industrial segment that, as of the first quarter of 2017, made up 17% of total sales.

The stock has soared 35% in the last year, as actual earnings have beat expectations in at least the last four quarters.

The first quarter of 2017 handily beat expectations, with the industrial segment posting a 40.9% increase in sales compared to the same quarter last year. The company attributed this to increases in its market share as well as strong market growth.

So, as expected, estimates were adjusted upwards after another very successful quarter. Going forward, Linamar is expected to see an increasing growth profile with earnings per share increasing 3.8% this year, over 6% next year, and almost 9% in 2019.

With Linamar, we should remember that its business is cyclical, and although the company has successfully attempted to minimize this cyclicality by entering the industrial segment, it is still primarily an auto parts company.

So, while this company is very well run with quality management, I have macro concerns related to its future, namely rising interest rates and their expected negative impact on auto sales.

Cascades Inc. (TSX:CAS)

The stock has soared 52% in the last year and 169% in the last three years, but the company's performance has not been so steady, as three of the last four quarters came in below expectations.

In the latest quarter, sales were flat versus the same quarter in the prior year and up 3% sequentially.

The company's leverage is high with a debt-to-capital ratio of 58%, and operating cash flow was negative six million in the quarter. But the company has been nicely free cash flow positive since at least 2012, making it an attractive business.

For this year, earnings per share are expected to fall slightly to $1.18 after rising slightly in 2016. Going forward, management expects that results will benefit from the recent price hikes in containerboard, as well as increases in seasonal demand and more stable margins.

Valuations on Cascades shares are still attractive, trading at 7.8 times earnings and four times cash flow, and this, along with management's process improvement focus to streamline the business, makes me positive for its future.

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