



Why Did Martinrea International Inc. Shares Soar 6.75%?

Description

Martinrea International Inc. ([TSX:MRE](#)) reported its first-quarter results this week that were above expectations, and management highlighted the fact that the future is looking bright.

Earnings per share came in at \$0.55 — a 25% improvement compared to the same quarter last year and well above consensus expectations of \$0.51.

Solid margin improvement

The company made good progress in increasing margins and efficiencies, as the gross margin was 13.2% versus 11.3% in the same quarter last year. For comparison purposes, and to illustrate how effective the company has been in increasing margins, we should note that 2016's gross margin was 10.9% — up from 10.4% in 2015 and 9.7% in 2014.

Heading further down the income statement, we can see that the company also improved its operating margin to 6.2% from 5.3% last year, and its adjusted EBITDA margin to 10.3% from 8.9% last year.

While sales declined 4.4%, the bullish thesis on Martinrea is still strong, given the operational improvements and efficiencies that are being achieved as well as the fact that the company is focused on higher-margin businesses, which will ultimately make the company a more profitable one.

And we can see this in the company's improving margins and cash flow generation.

Looking at the cash flow statement, we see that the company generated approximately \$97 million in operating cash flow (before changes in working capital) and free cash flow of \$14 million (or \$29 million before changes in working capital), representing a significant improvement over the same period last year.

Balance sheet strengthening

The company's long-term debt declined by almost \$40 million to \$658 million, and its debt-to-equity ratio declined to 73% from 83% last year. That's still high, but it's manageable considering the amount

of free cash flow the company is generating.

Valuation remains attractive

The stock trades at a P/E of 5.8 times this year's expected consensus earnings, despite its 23% expected 2017 earnings-growth rate, and it trades at slightly more than its book value with an ROE of 12.7%. With free cash flow of \$33 million in 2016, \$34 million in the first half of 2017, and improving margins, it is still my view that this is a very cheap stock despite the run up.

Comparing this to **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), we see that Magna trades at a P/E of almost 11 times this year's earnings, and it has an 11% earnings-growth rate based on consensus expectations.

And although Magna is a well-run business with a very healthy ROE of 21.5% and less debt, the company appears to have less room for margin improvements at this point.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)
3. TSX:MRE (Martinrea International Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/26

Date Created

2017/08/10

Author

karenjennifer

default watermark