Toromont Industries Ltd. Consolidates for Growth

Description

The news that **Toromont Industries Ltd.** (TSX:TIH) is paying $1.02 billion to acquire Hewitt Group, the Quebec-based **Caterpillar Inc.** (NYSE:CAT) dealer with 45 branches in Quebec, Atlantic Canada, Ontario, and Nunavut, is a sign it's ready to get serious about the heavy equipment industry in this country.

With this deal, Toromont holds the rights to sell Caterpillar equipment from Manitoba all the way east to Newfoundland and Labrador. That's great news for shareholders who've waited patiently for the oil and gas and mining industries in this country to recover to the point where investments in new equipment are necessary.

The billion-dollar deal suggests Toromont sees this starting to happen, or it wouldn't have made the deal, despite being interested in Hewitt for some time.

Don't sell Toromont stock

If I were the Hewitt family, I'd be hanging on to the $100 million it will receive in stock as part of the cash-and-shares transaction.

That's because if you had invested $10,000 in Toromont stock five years ago, today it would be worth just under $25,000. The same investment in Caterpillar or **Finning International Inc.** (TSX:FTT), its western Canadian counterpart, would be worth $10,000 less.

The latest acquisition cements Toromont's leadership position within Canada's heavy equipment industry and puts its stock over $50, trading at or near its all-time high.

In April, I recommended that investors choose Toromont over Finning if they were interested in owning one of Canada's CAT stocks; since then, Toromont has barely budged, up 5.2% over the past four months compared to 9.3% for Finning over the same period.

I said it in April, and I'll repeat it.

If you want a good long-term investment in the industrial sector, Toromont should be at the top of the list.

What does it get?

Toromont gets a business with consistent revenue of around $1.1 billion annually over the past three years and EBIT earnings that have almost doubled since 2014.

It also acquires a company operating in a province where $91 billion in infrastructure spending is expected to be made by the Quebec government over the next 10 years. Now is the time for Toromont to flex its financial muscles.

Together, the two companies will have almost $3 billion in annual revenue, $300 million in operating income, and a strong balance sheet with approximately $850 million in debt after the deal closes, or just 22% of its market cap.

Toromont's future looks bright

The entire country's Caterpillar dealer network is now primarily operated by either Toromont or Finning. If the oil and gas, construction, and mining industries continue to cooperate, both companies could enjoy a nice division of the provinces and territories from east to west.

Personally, I still think that Finning and Toromont should consider merging because it would give the combined entity excellent markets in Canada, South America, and the U.K., making it a global player in heavy equipment sales and service.

That said, there would probably be regulatory hurdles to jump over. Either way, Toromont shareholders have a lot to look forward to in the coming quarters.

As acquisitions go, this one's a winner. I just wish Toromont had used more stock and less debt to finance the deal.

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2. TSX:FTT (Finning International Inc.)
3. TSX:TIH (Toromont Industries Ltd.)

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