



Why Finning International Inc. Is up Over 2%

Description

Finning International Inc. ([TSX:FTT](#)), the world's largest Caterpillar dealer, announced its third-quarter earnings results this morning, and its stock has responded by rising over 2% in early trading. The stock has rallied more than 23% year to date, so let's break down the quarterly results and the fundamentals of the stock to determine if it could head even higher from here.

Breaking down the quarterly results

Here's a quick breakdown of 12 of the most notable financial statistics from Finning's three-month period ended September 30, 2017, compared with the same period in 2016:

Metric	Q3 2017	Q3 2016	Change
New equipment revenues	\$535 million	\$427 million	25.3%
Used equipment revenues	\$80 million	\$72 million	11.1%
Equipment rental revenues	\$63 million	\$61 million	3.3%
Product support revenues	\$866 million	\$770 million	12.5%
Other revenues	\$3 million	\$3 million	0%
Total revenues	\$1,547 million	\$1,333 million	16.1%
Adjusted EBITDA	\$149 million	\$119 million	25.2%
Adjusted EBITDA margin	9.6%	8.9%	70 basis points
Adjusted EBIT	\$103 million	\$73 million	41.1%
Adjusted EBIT margin	6.6%	5.4%	120 basis points
Adjusted net income	\$59 million	\$36 million	63.9%
Adjusted earnings per share (EPS)	\$0.35	\$0.22	59.1%

What should you do now?

It was a great quarter overall for Finning, and it posted very strong results for the first nine months of 2017, with its revenue up 9.5% to \$4.53 billion, its adjusted EBITDA up 22.4% to \$426 million, and its

adjusted EPS up 60% to \$0.96 in the first nine months of the year compared with the same period in 2016. That being said, I think the market has responded correctly by sending its stock higher in today's trading session, and I think it still represents a very attractive investment opportunity for the long term for two fundamental reasons.

First, it's undervalued based on its growth. Finning's stock trades at just 24.9 times fiscal 2017's estimated EPS of \$1.30 and only 20.3 times fiscal 2018's estimated EPS of \$1.60, both of which are very inexpensive given its current earnings-growth rate and its estimated 10% long-term earnings growth rate.

Second, it's a [dividend-growth superstar](#). Finning pays a quarterly dividend of \$0.19 per share, equating to \$0.76 per share on an annualized basis, which gives its stock a respectable 2.35% yield. Foolish investors must also note that the company's [4.1% dividend hike](#) on August 9 has it on track for 2017 to mark the 16th consecutive year in which it has raised its annual dividend payment, making it one of the top dividend-growth stocks in the industry.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making Finning International a long-term core holding.

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