Why Martinrea International Inc. Soared 11.11% on Wednesday

Description

Martinrea International Inc. (TSX:MRE), one of the world's largest diversified automotive suppliers, announced record third-quarter earnings results after the market closed on Tuesday, and its stock responded by soaring 11.11% in Wednesday's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if we should be long-term buyers today.

The results that ignited the rally

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

Metric	Q3 2017	Q3 2016	Change
Sales	$838.54 million	$914.73 million	(8.3%)
Gross margin	$113.42 million	$99.70 million	13.8%
Adjusted EBITDA	$92.41 million	$80.61 million	14.6%
Adjusted EBITDA margin	11.0%	8.8%	220 basis points
Adjusted operating income	$51.87 million	$43.39 million	19.5%
Adjusted operating margin	6.2%	4.7%	150 basis points
Adjusted net income	$36.26 million	$29.10 million	24.6%
Adjusted net earnings per share (EPS)	$0.42	$0.34	23.5%

Notable commentary from the report

In the press release, Martinrea's CFO Fred Di Tosto stated the following regarding its decline in sales:

> "Sales for the third quarter, excluding tooling sales of approximately $39 million, were $800

> million, slightly lower than previously announced sales guidance as a result of losing two weeks of sales on the GM Equinox program due to the strike at CAMI, which ended in mid-October."

Martinrea's executive chairman Rob Wildeboer stated the following regarding its outlook:

> "The future looks great, and we are now anticipating that our margin improvement over the next three years will accelerate from the past three years … Next year we expect to see double digit growth in adjusted net earnings, and another record year … As for sales, we anticipate they will be flattish next year, given anticipated timing of new launches and a full year impact of the module assembly sales in our Ingersoll plant moving to a Value Added model, but believe sales will start to increase in 2019 and grow to over $4 billion in 2020, based on our budgets."

Was the rally warranted?

It was an outstanding quarter overall for Martinrea, and it marked its 12th consecutive quarter with record year-over-year adjusted earnings. On top of the strong earnings results, the company's outlook on the future is very bright, so I think the market responded correctly by sending its stock soaring in Wednesday's trading session.

What should you do now?

Even after the +11% pop, I think Martinrea's stock represents an attractive investment opportunity for the long term for one fundamental reason in particular: valuation. Martinrea's stock still trades at just 7.5 times fiscal 2017's estimated EPS of $1.86 and a mere 6.8 times fiscal 2018's estimated EPS of $2.04, both of which are incredibly inexpensive given its current double-digit percentage earnings-growth rate.

Martinrea's stock is up more than 60% since I recommended it in February 2016 and more than 40% since it reported its second-quarter earnings results in August, and I think it still represents a very attractive long-term investment opportunity, so take a closer look and consider beginning to scale in to a position today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRE (Martinrea International Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/09/10
Date Created
2017/11/17
Author
jsolitro