New Flyer Industries Inc. Takes Control of its Business

Description

New Flyer Industries Inc. (TSX:NFI) announced November 16 that it's investing US$28 million to open a new bus and coach parts fabrication facility in Kentucky.

Mr. Trump will be delighted.

However, it's NFI shareholders that should be the happiest about the news, which will see the Winnipeg manufacturer of buses and motorcoaches hire as many as 550 people to work in 300,000-square-foot plant.

"We believe that owning and control of the fabrication of key parts of our supply chain (where we own the drawings and the intellectual property) are fundamental to our competitiveness and controlling overall cost, time, and quality," stated Paul Soubry, president and CEO of the NFI Group. "Once fully operational the return on invested capital is expected to be accretive to the company's current performance levels."

Stock's relative weakness a buying opportunity

New Flyer's stock lost almost 6% November 9 after announcing solid Q3 2017 earnings. After having a closer look, the only thing I can think of to send investors scurrying for the exits is the year-to-date dividend-payout ratio increased from 22.9% in 2016's first nine months of the year to 42% in the first nine months of 2017.

However, most of the decline in its free cash flow in 2017 is a result of increased capital expenditures for several initiatives including improvements at its MCI coach facility and the opening of a Vehicle Innovation Centre in Alabama, along with a 37% increase in its annual dividend.

All of these add value for NFI shareholders.

“Management believes that return on invested capital (ROIC) is an important ratio and tool that can be used to assess possible investments against their related earnings and capital utilization,” stated NFI’s Q3 2017 press release. “The ROIC during the last 12 months ended October 1, 2017, of 15.4% increased compared to 14.0% earned during the last 12 months ended October 2, 2016.”

The company’s strategy is to continue to make tuck-in acquisitions and implement company-wide initiatives that will increase its ability to lead the heavy-duty truck market by vertically integrating much of the manufacturing process.

Investors can expect it to continue to push the ROIC higher in the years ahead, as it strengthens its supply chain.

New Flyer expects to deliver 3,800 new transit buses and motor coaches in 2017, about 8% higher than in 2016. Should NAFTA negotiations not go as planned, NFI has four of its six manufacturing plants in the U.S. along with 75% of its suppliers.

Bottom line on New Flyer Industries

Back in June, I’d suggested that the company’s stock still had gas in the tank, and as long as CEO Paul Soubry was running the business, investors could be confident it was managed correctly.

Since then, its stock has gone sideways.

Personally, I think NFI is one of the five best stocks on the TSX. The latest dip is nothing more than a buying opportunity.

In the last two years, New Flyer has increased its backlog by 9% to 10,537, while almost doubling its ROIC to 15.4% from 8.5% in just 31 months.

Everything is just fine at New Flyer thanks to its ongoing efforts to take control of its business. NAFTA or not, New Flyer will continue to do well.

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