



Forget \$75: This Stock's Heading to \$100

Description

Acquisition announcements always make a splash, but the recent news from **Linamar Corporation** ([TSX:LNR](#)) is that the company is buying Winnipeg-based MacDon Industries Ltd. for \$1.2 billion, a deal that sent Linamar stock soaring well into the \$70s.

Forget \$75. The next stop for Linamar stock is \$100. Here's why the company could do it before the end of 2018.

Linamar's stock took a dive

Back in early November, the company's stock price took a 14% hit in a single day thanks to its Q3 2017 earnings announcement that showed a 14% decline in its earnings per share over the same period a year earlier.

That's a measured response by investors if there ever was one — a 100 basis point decline in its stock price for every 100 basis points in lower earnings — but they failed to take into account the one-time, recurring items and foreign currency, which I'd [mentioned](#) at the time. Absent those non-GAAP differences, Linamar's earnings per share rose by 9.4% year over year.

In my opinion, the decline in price had less to do with its earnings and more to do with investors' fears regarding NAFTA and how that will affect Linamar.

"If you look at Linamar's content per vehicle in dollars, all three regions of North America, Europe, and Asia saw strong increases during the third quarter," I wrote on November 13. "There might be some question marks from the report, but the big one-day drop in its stock price provides a buying opportunity that, five years from now, you'll be glad you took."

Since my call to buy, Linamar stock is up 13%, recovering most of what it lost in early November, the day after the earnings drop.

A transformational acquisition

Most of the gains are as a result of the MacDon purchase, but that's okay because in order to be good, you've also got to be a little bit lucky. I didn't know that CEO Linda Hasenfratz was going to pull off an

acquisition of this size and scope, but I did notice that she's a great chief executive officer.

"Argue all you want about the math and/or science involved in these types of studies, but the reality is that women often make good leaders of businesses because they're generally more collaborative than men and far less quick to react when things go wrong," I [wrote](#) on May 10, 2016. "Would Linamar have been as successful were it run by a man? Quite possibly. But that doesn't change the fact that Linamar shareholders have been blessed with good leadership—and girl power."

So the fact is that Hasenfratz has once more delivered for shareholders. Since taking over from her dad, Frank, in 2002, Linamar stock has generated an average annual total return of 15.8%, which is 675 basis points greater than the **S&P/TSX Composite Index**. I'm therefore fully confident that \$100 is right around the corner.

The MacDon deal gives Linamar a real step up in the agricultural equipment market. MacDon brings to the table 67 years of manufacturing top-notch harvesting equipment. Together with Linamar's business in Europe, the segment has become an essential part of the company's growth story.

"The acquisition of MacDon provides a truly once-in-a-lifetime opportunity to move our agriculture business into a market leading position while providing meaningful diversification to the end markets we serve," Hasenfratz said about the deal. "MacDon is a strong, well-managed company and an innovative market leader in both customer penetration and technology evolution; it will be the centerpiece of our agriculture business. We get diversification, innovation, growth and a solid deal; we couldn't be happier."

This acquisition wasn't made for synergies or cost savings, but rather for growth, pure and simple.

Bottom line on LNR stock

In 2018, if Linamar doesn't hit \$100, I'd be shocked because MacDon brings expertise and profits to the table, two critical elements of any successful business.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:LNR (Linamar Corporation)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/07/21

Date Created

2017/12/20

Author

washworth

default watermark

default watermark