1 of the Best TSX Stocks Is Ready to Get Even Better in 2018

Description

I'm not particularly fond of Donald Trump, but if you're a fan of **New Flyer Industries Inc.** (TSX:NFI), the U.S. federal corporate tax cut from 35% to 21% passed into law at the end of 2017 should be music to your ears.

A new report from AltaCorp Capital analyst Chris Murray suggests that NFI, which generates about 80% of its overall revenue in the U.S., will be a significant beneficiary of this 40% cut in the corporate tax rate.

Before you start spending the capital gains that might come your way as a result of increased earnings pushing NFI's stock price higher, remember that the net-net benefit is still unknown, because many companies, both Canadian and American, already pay a lower effective tax rate than the statutory 35%.

But, clearly, firms with a greater amount of revenue generated in the U.S. than Canada will see a pop in annual earnings from this geographic segmentation.

One of the best stocks on TSX

In late October, I called NFI one of the five best stocks on the TSX, and that's without taking into consideration the benefit of a lower corporate tax rate. Let's do that using its current financial situation.

As of October 1, 2017, NFI's trailing 12-month revenues were US$2.4 billion, 90% of which was generated in the U.S., not the 80% quoted in the news regarding AltaCorp Capital's report. However, I haven't seen the report, but in my books, 90% is even better news if you own NFI stock.

Most investors know that earnings, not revenues, generally drive stock prices, so we've got to figure out how much additional funds will flow to its bottom line as a result of the Trump tax cut.

In the 52 weeks ended October 1, 2017, NFI had US$238.0 million in pre-tax income, 59% higher than in the same period a year earlier. Over the past 52 weeks, it's paid income taxes of US$89.1 million for an effective tax rate of 37%; a year earlier, it paid income taxes of US$62 million for an effective tax rate of 42%.

The income tax paid is always going to be different than the income tax expense for any given period due to the latter being an estimate of the company's effective tax rate.

So, if you take 21% of US$238 million, it reduces the taxes payable by approximately US$39 million, or US$0.62 per share (US$39 million divided by 62.9 million shares outstanding). Analysts expect the company to earn $3.27 in fiscal 2018 (March 31, 2019). Add the additional 62 cents (79 cents in Canadian dollars), and you get $4.06 a share for a forward P/E ratio of 13.

Bottom line on NFI stock

For the 52 weeks ended October 1, 2017, NFI's return on invested capital was 15.4% — 140 basis points higher than a year earlier.

It's unlikely that the net gain of 79 cents per share projected above will come to fruition for a couple of reasons — some of its revenue is in Canada at a higher tax rate, and it doesn't break down the profitability of each country's operations — but in the big picture, its backlog is growing at a healthy mid-single-digit pace, which suggests that this tax cut will start to show up in Q1 2018 at the end of June and beyond.

It's hard not to love NFI stock given the Christmas present from the Trump tax cut. I'd be a big buyer on any dips below $50, as it did at the end of November.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:NFI (NFI Group)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2018/01/03
Author
washworth