Why Toromont Industries Ltd. Is Surging Over 6%

Description

Toromont Industries Ltd. (TSX:TIH), one of Canada's largest Caterpillar dealers and one of North America's leading providers of industrial and recreational refrigeration systems, announced its fiscal 2017 fourth-quarter and full-year earnings results after the market closed yesterday, and its stock has responded by surging over 6% at the open of today's trading session. Let's break down the results and the fundamentals of its stock to determine if we should consider buying in to this rally or if we should wait for it to subside.

The results that ignited the rally

Here's a quick breakdown of five of the most notable statistics from Toromont's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Total revenue	$822.77 million	$492.22 million	67.2%
Gross profit	$192.11 million	$129.36 million	73.8%
Operating income	$86.58 million	$62.89 million	37.7%
Net earnings	$59.14 million	$45.53 million	29.9%
Basic earnings per share (EPS)	$0.73	$0.58	25.9%

And here's a quick breakdown of five notable statistics from Toromont's 12-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Fiscal 2017	Fiscal 2016	Change
Total revenue	$2,350.16 million	$1,912.04 million	22.9%
Gross profit	$555.95 million	$468.06 million	18.8%
Operating income	$249.58 million	$216.56 million	15.2%
Net earnings	$175.97 million	$155.75 million	13.0%
Basic EPS	$2.22	$1.99	11.6%

A cherry on top

In the press release, Toromont announced a 21.1% increase to its quarterly dividend to $0.23 per share, and the first payment at the increased rate is payable on April 2 to shareholders of record at the close of business on March 9.

What should you do now?

The fourth quarter capped off a fantastic year for Toromont, and the dividend hike added to the positive sentiment, so I think the +6% rally is warranted; furthermore, I think its stock still represents an attractive long-term investment opportunity for two primary reasons.

First, it's still undervalued. After the +6% pop, Toromont's stock trades at 26.1 times fiscal 2017's basic EPS of $2.22, which seems fair, but it trades at just 21 times the consensus EPS estimate of $2.76 for fiscal 2018 and only 18.3 times the consensus EPS estimate of $3.17 for fiscal 2019; these multiples are very inexpensive given its current earnings-growth rate and its long-term growth potential given the synergies that will come from its acquisition of Hewitt Group and the increased demand that will likely come from the significant infrastructure spending plans of both the provincial and federal governments.

Second, it's a dividend-growth star. Toromont now pays an annual dividend of $0.92 per share, which brings its yield up to about 1.6%. Investors must note that the dividend hike it just announced has it on track for 2018 to mark the sixth consecutive year in which it has raised its annual dividend payment, and I think its very strong cash flow-generating ability will allow this streak to continue for many years to come.

With all of the information provided above in mind, I think Foolish investors should consider beginning to scale in to long-term positions in Toromont Industries today with the intention of adding to those positions on any weakness in the weeks ahead.

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