It’s Time to Ride Toromont Industries Ltd. to $100

Description

Toromont Industries Ltd. (TSX:TIH) surged more than 6% February 23 after announcing solid fourth-quarter earnings.

Fool.ca contributor Joseph Solitro singled out the company’s 21.1% increase in its quarterly dividend to $0.23 a share, the sixth consecutive year upping its dividend, as a big reason why investors ought to own Toromont stock.

I couldn’t agree more.

The dividend is just one of the many positives anyone looking closely at its business should be able to see. Toromont is a well-run business that’s taken its game to the next level, and if the growth continues, I don’t see any reason why it can’t hit $100 by the end of 2019.

Transformational deal

Last September, I raved about the billion-dollar deal Toromont made acquiring Hewitt Group, a family-owned Caterpillar dealer with 45 branches in Quebec, Atlantic Canada, Ontario, and Nunavut.

“With this deal, Toromont holds the rights to sell Caterpillar equipment from Manitoba all the way east to Newfoundland and Labrador,” I wrote September 1. “That’s great news for shareholders who’ve waited patiently for the oil and gas and mining industries in this country to recover to the point where investments in new equipment are necessary.”

I’m not the only one that thinks Toromont is one of the best stocks in the services sector. Raymond James analyst Ben Cherniavksy just upped the company’s 12-month price target to $67 from $63 on the strength of its Q4 2017 earnings report.

"The transformative nature of the Hewitt acquisition and the extended integration efforts involved compels us to embrace a longer-term perspective on Toromont's valuation," Cherniavsky said in a note to clients. "To derive our target price we apply a price-to-earnings multiple of 20 times (the upper end of the stock's historical range) to our new 2019 EPS estimate of $3.35."

As I'd stated in September, if you want to own a stock that gives you an interest in a business that sells and rents heavy equipment from **Caterpillar Inc.** (NYSE:CAT), you've got two choices in Canada: Toromont or **Finning International Inc.** (TSX:FTT). That's it; that's all.

Toromont dwarfs Finning

For my money, there's no comparison, despite the fact Finning's stock is up 35% over the past 52 weeks, almost 10 percentage points higher than Toromont.

Finning has suffered in recent years from a troubled mining industry; now, it's riding a bit of a renaissance in the commodities area.

Although Toromont faced that same headwind and is now also benefiting from a healthier mining industry — its sales in the mining sector were up 75% in 2017 — its equipment group also generated higher power systems sales and support revenue from companies looking to lower their energy costs at their operating facilities by using CAT gas generators to make their plants self-sufficient.

Also, Toromont's CIMCO refrigeration business (14% of revenue) is also growing by double digits — revenues increased by 13%, while operating income rose 46% — providing an unbelievable return on capital employed in 2017 of 96.4%, more than 20 percentage points higher than a year earlier.

Any time you can invest $1.4 million in capital expenditures in a single year to generate $30 million in operating income; you've got a business worth hanging on to, despite the fact it's such a small part of Toromont's overall business.

Frankly, with all the good stuff happening at Toromont, $100 by the end of 2019 seems like a lock.

CATEGORY

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2. TSX:FTT (Finning International Inc.)
3. TSX:TIH (Toromont Industries Ltd.)

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