3 Reasons to Own This Transportation Gem

Description

New Flyer Industries Inc. (TSX:NFI) announced its fourth-quarter earnings March 21. As always, they were solid, if not spectacular, results.

The Winnipeg-based manufacturer of transit buses and motor coaches, the largest in North America, is one of my five favourite stocks on the TSX. It was nice to see it finish off its fiscal year confident about the future.

With all the worrying about NAFTA and what it means for companies like New Flyer, it's hard to get behind companies that have a lot of trade with the U.S. so let me give you three reasons why you ought to consider owning this transportation gem.

An excellent CEO

Last June, I'd suggested that NFI stock still had plenty of gas in the tank. Since then, it's managed to deliver ~5.5% capital appreciation — a decent return, but nowhere near what shareholders have become accustomed to under CEO Paul Soubry.

Since the company consolidated its shares on a 10-for-1 basis in September 2011, its shares are up 638%, or 36% on an annualized basis.

"In fact, Soubry has done such a good job at New Flyer, the *National Post* named Soubry CEO of the Year in 2016," I wrote last June. "As long as Soubry is at the helm, New Flyer shareholders can be confident the company is being well run."

Return on invested capital

In 2017, New Flyer managed to generate a 15.8% return on its invested capital, 150 basis points higher than a year earlier. As long as that continues to move higher, investors should continue to be happy with their investment in the company.

Last November, New Flyer announced that it was spending US$28 million to open a new bus and coach parts fabrication facility in Kentucky that will add as many as 550 jobs. As Soubry said at the time, the investment will increase the company's return on invested capital by allowing it to control its costs and quality better.

It wouldn’t surprise me if ROIC hit 17% by the end of 2018.

Profitability

New Flyer finished the year with a 10.8% operating margin and record operating income of US$256 million on US$2.4 billion in revenue. In 2016, it had an operating margin of 9.5%. Before that, its best year regarding operating margins was 2011 at 7.9%.

The company continues to perform at an excellent level, and given how it will benefit from the lower corporate tax rate in the U.S., where it earns more than 80% of its overall revenue — prior to the tax cut, its effective tax rate was between 32% and 36%; that’s expected to drop to as low as 29% — its operating margins are likely to keep rising.

The bottom line on New Flyer Industries

In the United States and Canada, New Flyer has approximately 43% market share in the heavy-duty transit bus business. However, it’s the 43% market share for motor coaches (up from 39% in 2016) at its MCI division that has Soubry excited.

At the end of 2017, New Flyer had a total backlog of 4,186 firm orders along with options for another 7,971, about 1,100 of which are motor coaches, providing it with a nice one-two punch in the North American transportation industry.

I expect to hear good things from New Flyer in the coming quarters.

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