3 Reasons to Own This Infrastructure Stock

Description

Ask a TSX investor what the best infrastructure stock is, and most would likely answer **Brookfield Infrastructure Partners L.P.**; if you own BIP.UN, you've got yourself an excellent long-term investment .

However, the infrastructure stock I'm talking about is **Toromont Industries Ltd.** (TSX:TIH), which just announced solid first-quarter earnings.

Not sure about owning one of the world's largest **Caterpillar Inc.** dealerships? Here are three reasons to own this lesser-known infrastructure stock.

It's going to $100

Yes, I know, and Christmas is just around the corner.

In February, I'd laid out the reasons I felt that Toromont was going to $100. My argument was that it made a much better purchase than **Finning International Inc.** (TSX:FTT), its Western Canadian rival.

Since those prophetic words, Toromont's stock has flat-lined, while Finning is down almost 6%. Toromont's latest earnings suggest nothing about my hypothesis should change. I still believe it can hit $100 by the end of 2019.

Dividend investors ought to like it

Currently, Finning yields 2.3% — 70 basis points more than Toromont. However, that doesn't tell the entire story.

Over the past six years, Toromont has increased its annual dividend each and every year from $0.48 in 2012 to $0.92 in 2018, a compound annual growth rate of 11.5%. By comparison, Finning has grown its annual dividend on a compounded basis by 5.5%, or less than half Toromont's growth rate.

Not coincidentally, Toromont's earnings since 2012 have been far more consistent than Finning's, up six consecutive years in a row. In the first quarter, Toromont's operating profits increased by 29.8%, while earnings per share were up 11.8% year over year.

The future looks bright indeed.

Hewitt integration

The company talked a fair bit in its Q1 2018 conference call about the integration of Hewitt Group and how it's coming along.

"We are on our way with the business integration although there is still much work to be done," said CFO Paul Jewer. "As we've consistently said this is not an overnight endeavour, we are focused on the long run ways of growth."

This is a transformational acquisition and should be executed with care and precision. If you're a long-time Toromont shareholder, you're probably very familiar with the company's conservative tone. It's far better for it to undersell and overdeliver than the other way around.

In my opinion, this is the hallmark of a humble, yet confident management team.

Bottom line

During the conference call, CEO Scott Medhurst briefly mentioned infrastructure spending, suggesting that all levels of government across all the provinces and territories would continue to invest in infrastructure projects over the long term.

As one of the largest Caterpillar dealers in the world, it's ideally positioned post-Hewitt to drive higher revenue and profits for years to come.

As the CFO stated, it's after a long runway of growth, not a quick hit to the bottom line.

I like where Toromont is heading.

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