This Overlooked Industrial Will Deliver Double-Digit Returns

Description

As the Canadian economy picks up steam, so too has the TSX Industrial Index. Over the past year, the index has returned a healthy 12%, far outpacing the broader market. One of the diamonds in the industry is **Toromont Industries Ltd.** (TSX:TIH). The company has returned 22% over the past year, and there are plenty of reasons to believe it will continue to outperform.

Toromont owns one of the largest Caterpillar distribution networks and makes refrigeration systems through its CIMCO business. The company is often overlooked in favour of the larger, more well-known **Finning International** (TSX:FTT). Interestingly, Toromont has far outperformed its peer over the past three, five, and 10 years, consistently providing double-digit returns to shareholders.

Sometimes bigger is not better.

Third-quarter earnings

Toromont crushed its third-quarter results. Revenues increased 64% year over year (YOY), and it beat analysts' expectations on both the top and bottom lines. The impressive results came on the back of a number of factors. First and foremost, in October 2017 the company completed its transformational acquisition of privately held Hewitt Group. Hewitt was the exclusive distributor of Caterpillar equipment in Quebec and Atlantic Canada. The new addition complements its existing Caterpillar branches in Ontario, Manitoba, and Nunavut.

Second, its legacy business saw strong demand. Mining and power systems were up, as were sales for its refrigeration systems. Booking and backlogs also saw improvement YOY, pointing to solid future growth.

All tides rising

Toromont is a Canadian Dividend Aristocrat, having raised dividends for 29 consecutive years. In late February, it raised dividends by a whopping 21.05%, further extending its dividend-growth streak. Even with the big raise, its payout ratio is a respectable 41%, which leaves ample room for further growth.

While industrials have seen mixed results over the past handful of years, Toromont has seen growth across all its segments. The company has consistently grown earnings and sales YOY without missing a beat. On a compound annual basis, earnings have grown by 8%, sales by 9.6%, and cash flow has grown by 23%.

Outlook

The company is expected to grow earnings by approximately 29% in 2018 and a further 15% in 2019. The company is trading at a cheap valuation of 17.62 times forward earnings. Likewise, its P/E to growth ratio is 1.06, which signifies that its share price is barely keeping up with expected growth. Analysts have an average price target of $62.75 on its shares, implying 10% upside from current price levels.

Over the next year, the company will benefit from further integrating its Hewitt acquisition. By the same token, its new presence in Quebec will enable it to benefit from the province’s robust mining and infrastructure investments.

Looking for growth and income all in one place? Look no further than Toromont.

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