This Little-Known Industrial Can Return 20% by the End of Year

Description

As a value investor, I am always scouring the market, looking for companies that are “unloved” by the market. Sometimes entire industries are discounted — case in point, the industrial industry.

They are considered cyclical: as the economy expands, so too does the industry; on the flip side, as the economy contracts, companies tend to tighten the purse, and industrials suffer as a result.

There is nothing exciting about industrial companies — aside from current valuations, that is.

One company that looks to be a good buy is **Wajax Corp.** (TSX:WJX).

A little background

Wajax is engaged in the sale and service support of mobile equipment, power systems, and industrial components. The company operates through a network of approximately 120 branches in Canada. Its customers are spread across the resources, construction, manufacturing, and transportation industries.

Mixed stock performance

There is no other way to describe Wajax’s historical performance. As an investor, your feelings on the stock will depend on when you bought. If you’d bought five years ago, you’re looking at a loss of approximately 22%.

If you’d bought two years ago, you’d be sitting on a hefty 56% gain. Over the past year, its 13% gain is in line with the TSX Industrial Index.

Wild price swings

Wajax has a market cap of $500 million and is considered a small cap. Thus, it is subject to wild price swings. If you take a quick look at its one-year chart, it’s not uncommon to see double-digit price movements.

This provides investors with great investment opportunities.

Financial performance

After years of declining income and revenues, the company has delivered exceptional results over the past two years. In 2016 and 2017, the company grew earnings by triple digits, as it rides the cyclical upwards momentum of the industry.

Its impressive performance has continued into 2018. In the first quarter, Wajax increased revenues by 7% and adjusted earnings per share by 66% year over year (YOY).

One of the most encouraging metrics is the company’s backlog. After hitting a cyclical low in the fourth quarter of 2016, Wajax has seen steady backlog growth. In its most recent quarter, the backlog grew 15% over the previous quarter and 28% YOY.

Trading at a discount

The market has yet to take notice of the company’s recent performance. Its price-to-earnings (P/E) ratio of 14.7 is almost half the industry, and its enterprise value to earnings before interest, taxes, depreciation, and amortization of 9.74 is also well below industry averages.

It is also trading at a cheap forward P/E of 11.43 based on 2018 earnings estimates. If the company were to trade in line with its current a P/E, it would imply an end-of-year share price of $30.18. Not surprisingly, analysts have an average price target of $30.25, very close to its current P/E.

That is approximately 20% upside in a little under a year!

There is plenty of value to be found if you know where to look. Wajax is just one industrial poised to reward investors.

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