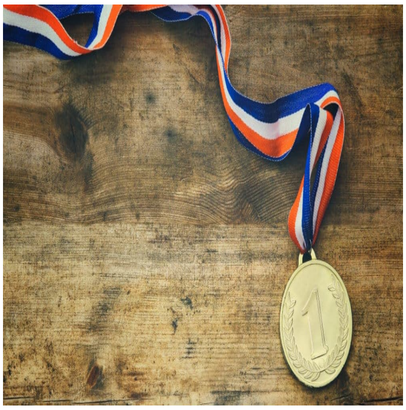

Earnings Season Is Here and This Construction Stock Is a Winner

Description

It's earnings season, and stock-pickers are busy scrutinizing reports to see which companies reported what. Among the best increases by far is an analyst favourite, **Toromont Industries Ltd.** (TSX:TIH), an international heavy equipment provider based in Toronto. Best known for its Caterpillar dealerships, Toromont Industries can get a digger, 360, or most other heavy construction vehicle to you whether you're in Newfoundland, Labrador, Manitoba, or Nunavut.

Let's have a look under the bonnet and see whether Toromont Industries is a good buy today. We'll also be looking at **Finning International Inc.** (TSX:FTT) and comparing the two stocks on their multiples and performance. Which one is the best quality overall, and should you consider buying both?

A homegrown construction stock to be proud of

Toromont Industries reported excellent Q2 profits Tuesday, announcing an increase of 67%, smashing estimates and sending its stock soaring the following day. Its share price rocketed +12% Wednesday as a result.

Overvalued by almost double compared to its future cash flow value. This is not surprising considering its recent good news. Its P/E of 25.7 times earnings is further reflection of this valuation, and is confirmed by a slightly high PEG of 1.8 times growth. What's really off-putting, however, is Toromont Industries' P/B of 4.7 times book.

Paying over four times what this stock is worth doesn't make sense right now, even for its 14.6% expected annual growth in earnings. Would-be investors should balance this stock's high debt levels with a middling dividend yield of 1.39%.

But which construction stock does the heaviest lifting?

Finning International sells, rents, and services heavy equipment, engines, and other machinery in both American continents and the British Isles. Its stock is similarly overvalued by almost 50% compared to its future cash flow value. Looking at its P/E of 22.1 times earnings we see confirmation of this.

However, Finning International has a PEG equal to growth and a lower P/B than its competitor of 2.6 times book. There's higher growth, too, with Finning International expecting a 21.9% annual growth in earnings. It beats its competitor on dividend yield, too, offering 2.49%.

Overall, it's easy to see how construction stocks get overheated when they post good results. While this leads to higher sales of shares, value investors would do well to stand back until overvaluation cools.

The bottom line

Investors looking for value should wait for both stocks to cool down somewhat. If you're buying today, Finning International is the better choice in terms of value, growth, and dividends. Investors should also be aware that infrastructure may get increased funding from the top down in municipal areas such as the GTA. To use Toronto as an example, city expansion is likely to be an ongoing project that will boost the construction industry.

Meanwhile, domestic investors looking to buy construction stocks should also play close attention to real estate and property development markets as indicators of future growth. Rail and excavation stocks would also be good plays to pad out the industrial section of your portfolio, but be aware of possible contraction in the event of a widespread downturn.

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2. TSX:TIH (Toromont Industries Ltd.)

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