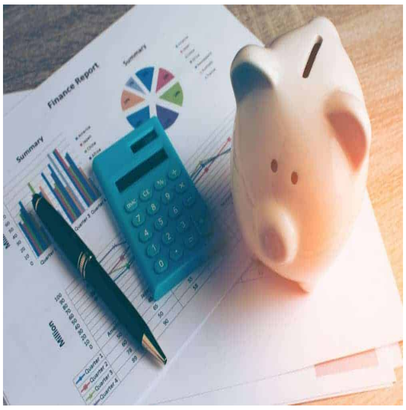

Caterpillar Inc.'s Q2 Results Could Impact These 2 Canadian Stocks

Description

Earnings season is always a busy time for stock market commentators, and the latest results have included some unlikely winners. Beating analyst forecasts, **Caterpillar Inc.** (NYSE:CAT) has just reported improved full-year profits on the back of exceptionally strong Q2 results. The great news for fans of construction stocks is that Caterpillar's upswing in fortunes has been driven by strong demand for its equipment and services.

This bodes well not only for direct investors, but also for anybody with an eye on the world economy. Indeed, construction stock performance can be seen as an indicator for global growth. Witnessing a stock like Caterpillar report a near doubling of earnings is a great sign for global fortunes, and also reflects well on domestic stocks.

Below are two Canadian companies that are directly related to Caterpillar and should see an improvement in their stocks' performance on the back of its positive Q2 report.

Toromont Industries Ltd. (TSX:TIH)

A major international construction equipment provider headquarted in Toronto, Toromont Industries is one of Canada's biggest Caterpillar dealerships. It recently reported its own big Q2 win, with a rise in profits that surprised analysts and sent its share price surging.

Buying today, investors would find this stock is selling for almost double its future cash flow value. High fundamentals such as a P/E ratio of 25.7 times earnings, PEG of 1.8 times growth, and P/B ratio of 4.7 times book further indicate that value investor may want to steer clear.

However, Toromont Industries is looking at a 14.6% expected annual growth in earnings, and pays a dividend yield of 1.39%, neither of which feel like a huge incentive for growth or income investors.

Finning International Inc. (TSX:FTT)

Finning International is in the business of selling, renting out, and servicing construction equipment, engines, and other machinery in both American continents as well as the British Isles. It's also the biggest global contractor of Caterpillar equipment, products and services.

However, its stock is overvalued by almost 50% of its future cash flow value, with a P/E of 22.1 times earnings. Its P/B of 2.6 times book is a little high, though a healthy dividend yield of 2.49% goes a long way to improve the value of this stock. An expected 21.9% annual growth in earnings makes for a great choice for growth investors.

The bottom line

How do our two domestic stocks compare to Caterpillar in terms of overall quality? At $143 a share, Caterpillar is overpriced by about $8. Its P/E of 38.1 times earnings is too high, as is the company's PEG of 2.2 times growth, while its P/B of 5.6 times book further indicates overvaluation. Future earnings growth of 17.2% per annum is good and pairs with an expected ROE of 31.2%.

Caterpillar's level of debt is extremely high at 231% of its net worth, thus overshadowing an otherwise solid dividend yield of 2.41%. Canadian investors looking to own construction stocks might therefore be better off buying Finning International, thereby sticking with a Caterpillar contractor rather than Caterpillar itself. All told, however, these types of stocks are all overvalued at present, making them better suited to optimistic growth investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CAT (Caterpillar)
2. TSX:FTT (Finning International Inc.)
3. TSX:TIH (Toromont Industries Ltd.)

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