



Is Toromont Industries Ltd. (TSX:TIH) STILL a Great Buy?

Description

It's been a crazy few years for **Toromont Industries Ltd.** ([TSX:TIH](#)). Trading at just \$22.96 in August of 2013, it soared as high as \$66.33 recently. This is a crazy return for any company—and Toromont even pays a dividend on top of it! But can the heavy equipment dealer keep up the red-hot gains?

To answer that question, it helps to look at Toromont's operations.

Operations

Toromont is a heavy equipment dealer that mainly sells **Caterpillar Inc.** trucks and equipment across the country. These include backhoe loaders, multi terrain loaders, compactors, dozers, drills and more.

It's hardly surprising that Toromont has built a lucrative business selling Caterpillar products. The natural resources sector is huge in this country. Canada has the world's third-largest proven petroleum reserves and is the fourth largest exporter of petro products. Other important natural resource industries include logging and mineral exploration.

All of these industries are heavily reliant on heavy equipment (pardon the pun); thus, demand for Toromont's offerings is predictably strong.

Financial performance

High demand for Caterpillar products nationwide ensures a steady stream of revenue for Toromont, which is reflected in the company's financial statements. Toromont saw frothy year-over-year revenue growth of 64.20% as of its most recent quarter. Although the growth in net income was more modest at 13.9%, the company's growth figures are solid all around.

Toromont's profitability ratios are somewhat less enviable. Profit margin and operating margin stand at 6.87% and 10.27%, respectively, as of the most recent reports. Most analysts would consider these figures below average. On a more positive note, the company's return on equity has been around 17.55% for the past 12 months, which most analysts would consider this a strong figure.

Acquisitions

Toromont's frothy growth has been spurred in no small part by its acquisitions. In September of last year, the company [acquired Hewitt Group](#), a family-owned Caterpillar dealer with 45 branches across the country. This acquisition significantly extended Toromont's reach and helped add over \$400 million to the company's revenue in Q2. Another recent acquisition, **Enerflex Ltd.**, increased Toromont's presence in the oil and gas industry. Toromont has since spun off its holdings in Enerflex to shareholders, however.

There are many other good reasons to recommend Toromont stock. The company recently [increased its dividend by 21.1%](#), which shows that management intends to share the wealth with investors. It also has a PEG ratio of 0.99 (based on five-year expected earnings). This indicates that the stock is priced low relative to anticipated future earnings. Finally, the company's dividend yield of 1.61% gives an extra income-related incentive for investors to buy into Canada's largest heavy equipment dealer.

It's been a red-hot year for Toromont and the company shows no sign of slowing down. In the past 12 months, it has seen returns well in excess of 30%. Can Toromont's management keep up the good work?

Stay tuned.

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