



New York City Could Be the Key to This Stock's Future

Description

NFI Group ([TSX:NFI](#)) was flying high heading into 2018. And then the wheels fell off.

The Winnipeg manufacturer of buses and motor coaches had just delivered its sixth consecutive year of double-digit returns since converting from an income trust to a corporate structure in 2011.

The funny thing about NFI's year-long slump is that there hasn't been any disastrous news to make one think the story had changed for the worse. Sure, it reported 2018 total bus deliveries of 4,313 — 69 shy of its outlook for the year — but that hardly qualifies as a disaster.

“Clearly it was a bit of a disappointment that they did not meet their fourth-quarter delivery guidance,” said Cameron Doerksen, an analyst with National Bank Financial. “But I don’t have any fundamental concerns that would justify the performance of the stock in the last six months.”

I agree wholeheartedly with the analyst's assessment.

In October 2017, I'd [called](#) NFI one of the five best stocks on the TSX. I've written about NFI since then. My confidence in CEO Paul Soubry and the company hasn't changed. I still think it's one of the best stocks to own on the TSX, only now it's dirt cheap on a valuation basis.

My Fool colleague Ambrose O'Callaghan is less optimistic about its fortunes over the next year, [suggesting](#) in a recent article that broader economic concerns surrounding the transportation industry (not the only industry feeling some pain) combined with the fact NFI had a strong run in January, put it on his “do not buy” list.

Fair enough.

However, I believe that New York City might have something to do with NFI breaking out of its slump. Here's why.

A pilot project in the Big Apple

A year ago, the Metropolitan Transportation Authority (MTA), the government agency that runs New York City's transit system, began a three-year pilot project with 10 all-electric buses provided by two bus makers: NFI and Proterra, a California-based manufacturer. If the project goes well, MTA will order 60 more.

One year into the test, I've seen very little news about how it's going, but what we do know is that NFI's five buses are running in Manhattan, while Proterra's five buses are stationed in the boroughs of Brooklyn and Queens.

While tests like these are running in major cities across Canada and the U.S., the New York pilot is vital to the growth of electric buses in North America. If a bus system with more than 5,700 buses, 330 routes, and 16,000 stops endorses electric buses, the biggest bus system in North America by a country mile, it becomes a relatively easy purchasing decision for transit authorities of all sizes.

That's especially true when you consider that the average bus in New York travels at less than 15 kilometres an hour, one of the slowest speeds in North America. If New York can work with electric, everybody should be able to.

I can't say how the division of the spoils would go between NFI and Proterra, but I'm sure both management teams will get enough business it won't matter who gets the bragging rights.

In the meantime, it's important to consider that a win in New York would likely result in NFI getting back the 69 bus deliveries it didn't deliver in 2018 — some from New York and other orders from other transit authorities in reaction to the MTA's decision — making the guidance miss a bit of a non-issue.

What's 2019 got in store?

The company expects 2019 to be a healthy year for vehicle deliveries. It plans to deliver 4,455 vehicles, a 3.3% increase from 2018, with 2,845 heavy-duty transit buses (64%), 1,065 motor coaches (24%), and 545 cutaway and medium-duty vehicles (12%).

NFI finished the fourth quarter with 3,649 firm orders in the backlog — heavy-duty transit buses accounting for 83% of them. Add in options for 6,177, and we're talking about \$4.5 billion in potential revenue.

NFI believes that many transit authorities are in the process of figuring out what percentage electric buses will be of their total fleet slowing the bid process. As transit systems make these decisions, the orders will speed up.

It's short-term pain for long-term gain.

When the pilot project ends in early 2021, investors are going to be very happy they bought into the current uncertainty.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:NFI (NFI Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/01

Date Created

2019/02/07

Author

washworth

default watermark

default watermark