This Is Easily the Cheapest Stock on the TSX

Description

A market that's near its all-time high has investors searching for value. You don't have to look any further for a bargain. **Linamar** (TSX:LNR) is easily the cheapest stock on the Toronto Stock Exchange right now.

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Yesterday, Linamar just reported its fourth-quarter and 2018 full-year results. The automotive supplier didn't disappoint by marching on with a ninth consecutive year of double-digit earnings growth for 2018.

Let's dig deeper into the recent results.

Q4 results

Here's a quick overview of key metrics of Linamar in Q4 2018 compared to Q4 2017.

	Q4 2017	Q4 2018	Change
Revenue	$1574.5 million	$1,732 million	10%
Operating earnings	$158.2 million	$171.1 million	8.2%
Earnings before interest, taxes, and amortization (EBITDA)	$238 million	$258.9 million	8.8%
EBITDA margin	15.1%	14.9%	-0.2%
Diluted earnings per share (EPS)	$1.85	$1.75	-5.4%
Normalized EBITDA	$240.7 million	$247.6 million	2.9%
Normalized EBITDA margin	15.3%	14.3%	-1%

A number of factors boosted the sales of Linamar's

Industrial segment, including the acquisition of MacDon and strong market share gains for scissors. This segment made up about 20.4% of total sales compared to 13.2% in 2017.

MacDon expands Linamar's industrial offerings, as it designs and manufactures specialized agriculture harvesting equipment, including drapers and self-propelled windrowers.

Linamar wasn't the only automotive supplier to post a lackluster quarter. In fact, bigger peer **Magna** experienced EPS reduction of 11%. Both companies experienced lower volumes in Europe and Asia. Comparing the two companies' Q4, Linamar actually fared better with higher revenue growth and lower EPS decline than Magna.

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2018 results

Here's a quick overview of key metrics of Linamar in 2018 compared to 2017.

	2017	2018	Change
Revenue	$6,546.5 million	$7,620.6 million	16.4%
Operating earnings	$707.9 million	$819.9 million	15.8%
EBITDA	$1,036.6 million	$1,186.9 million	14.5%
EBITDA margin	15.8%	15.6%	-0.2%
Diluted EPS	$8.35	$8.82	5.6%
Normalized EBITDA	$1,058.6 million	$1,176.9 million	11.2%
Normalized EBITDA margin	16.2%	15.4%	-0.8%

It's admirable that Linamar had double-digit growth in operating earnings and normalized EBITDA as well as only mild margins compression for 2018.

However, on a per-share basis, diluted earnings only increased by 5.6%. As a result, the stock trades at a very cheap 2018 price-to-earnings ratio (P/E) of about 5.8.

Risks

There are concerns from peak auto sales and headwinds from car-sharing programs that can further pressure Linamar's margins and earnings growth, especially for the longer term.

Moreover, the last recession triggered the company to post a loss in 2009. Although Linamar is a much larger, stronger, and diversified company than it was 10 years ago, it's still very sensitive to business cycles. And that's something that shareholders should keep in mind.

Investor takeaway

Linamar believes it can compete in the hybrid and electric vehicle space. It's investing heavily into the business — recently, about 74% of its operating cash flow was used for capital spending. It pays out about 28% of free cash flow as dividends, so its dividend should be safe.

Although there are headwinds, Linamar is trading at such a bargain P/E, which indicates the market expects little from the company. It's entirely possible that the stock could trade at a P/E of at least eight over the next 12 months, which implies a target price of at least $70 for about 38% upside!

The mean target from **Thomson Reuters** has a 12-month target of $68 on the stock, which represents near-term upside potential of roughly 34%. The high target? It's $90 for near-term upside of 77%!

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If you're looking for a bargain, Linamar is easily the cheapest stock on the TSX.

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