1 Great Stock Trading at a Depressed Price

Description

Linamar (TSX:LNR) is a Canadian automotive and industrial company with worldwide operations in two major categories: Transportation and Manufacturing. These are categorized into several business segments: Machining & Assembly, Light Metal Casting, Forging and Skyjack. The company's products include engine tools, cylinder blocks and heads, camshafts and connecting rod components, along with mobile aerial work platforms under its Skyjack brand.

There is significant value in Linamar's stock if North American auto sales and the global economy do not fall off a cliff. The ongoing trade tensions between the United States and China have unfairly depressed Linamar's stock price. Low interest rates and strong economic activity is expected to boost Linamar's revenue growth and operating margin.

There are several risks with Linamar's business model. These include a sudden decline in North American vehicle sales due to macroeconomic factors, tariffs that negatively impact automotive part sales, low-cost competition from India and China, losing market share to small electrical companies with low barriers to entry, and escalating metal costs, used to manufacture products.

However, these risks are already priced into Linamar's stock valuation. It appears that even a major slowdown in North American auto sales or an industrial recession that could lead to a big drop in Linamar's short-term revenue and narrowing margins would have minimal impact to the company's business prospects over the long term.

Linamar's Q1 results matched analyst expectations. Revenue was reported as $1.98 billion, up from $1.88 billion and adjusted operating income was $199 million. Adjusted earnings per share was $2.12, down $0.22 year over year. The impact of IFRS 16 was determined not to impact net income. Linamar adjusted its sales forecast and now expects moderate earnings growth in 2020.

Manufacturing margins are not expected to increase year over year. However, it is critical to note that such expectations are baked into the stock price, which has dropped by one-third in the last year.

Linamar has seen a slow start to the year but, at the current valuation, is ridiculously cheap. The company is very strong at diversifying its holdings and has been making a conscious effort to diversify its product offerings. The company has a rock-solid balance sheet, trades at five times earnings, and CEO Linda Hasenfratz is one the best chief executives in the country with a long-term approach. She has been buying stock hand over fist recently and has been increasing her stake for the last several years.

It is worth noting that Linda was a substantial buyer of Linamar's stock during the depths of the Great Recession when investors were shunning the stock. Since then, the stock is up more than 1,500% over the last 10 years. As an operating business, Linamar is much more diverse than other firms in the auto parts industry with about 45% of operating income coming from the manufacturing segment. The company is exposed to growth sectors that would shine even if there were a cyclical decline in car sales.

Linamar continues to have a positive outlook and has increased free cash flow and non-auto earnings over the last several years. Expect exciting things from Linamar in the future!

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