Aspiring Millionaires: This 1 Superb Stock Is a Must-Buy!

Description

If you have friends in the construction industry, chances are, they have purchased equipment from **Finning** (TSX:FTT). It is the world's largest Caterpillar dealer, and it specializes in selling, renting, and providing parts and services for customers in the mining, construction, petroleum, and forestry industries.

The company was founded in 1933 in Vancouver. As of fiscal year end 2018, the company reported revenues of $7 billion, up from $6.3 billion the prior year. Net income margin of 3.3%, which is down slightly from 3.4% the prior year.

Finning's one-year returns have been -30.34% compared to -35.24% for its competitor **Wajax**. Contrary to Finning, which sells **Caterpillar**, Wajax specializes in Hitachi, JCB, Bell, and Hyster, just to name a few.

An interpretation of the numbers

For the six months ending June 30, 2019, Finning's balance sheet is quite ordinary. A couple of things that catch my attention are the company's low cash balance of $160 million (down from $545 million the prior year) and its short-term debt of $751 million (up from $154 million the prior year).

Given the company's acquisition of 4Refuel (which I will detail below), it caused a spike in short-term borrowings and a decrease in cash on hand. Thus, it is not a big concern for investors.

Revenues grew by $550 million, which is offset by growth in cost of goods sold by $542 million. This is likely due to increases in new equipment sales, which are sold at lower margins compared to equipment rentals and used equipment.

Net income is down to $116 million from $152 million in the same period last year. This is largely due to $29 million in other expenses incurred from the shrinking of the company's workforce.

Finning's operating cash flows essentially doubled from $(224) million to $(451) million, driven by an increase in accounts receivable by $200 million. The overall cash outlay was $294 million for the period, which is up from an outlay of $158 million the prior year.

But wait, there's more!

The highlight of the company's notes to its financials is the acquisition of 4Refuel, which is a mobile on-site refueling company operating in B.C., Alberta, Saskatchewan, Manitoba, Ontario, Quebec, and Texas, U.S.

The company paid $241 million for the business, which it paid for with cash on hand and its existing credit facilities. The deal will be finalized no later than year end 2019.

4Refuel was acquired on February 1, 2019, and since the date of acquisition, it has contributed $280 million to Finning's revenues. On an annualized basis, this represents $672 million contributed to Finning's revenues, which represents 10% of its year-end 2018 revenues.

Foolish takeaway

Finning has solid financials, as evidenced by its growth in revenues, strategic acquisitions, and consistent net income. Although I would like to see a higher cash balance and positive operating cash flows, I believe the acquisition of 4Refuel will benefit investors down the road.

4Refuel allows Finning to expand outside its current revenue drivers of new and used equipment, equipment rental and product support. On an annualized basis, 4Refuel is expected to contribute $672 million to Finning's top line, which is 10% of its current revenues.

With the construction equipment market expected to reach US$186 billion by 2026 with a compounded annual growth rate of 4.8%, there is evidently consistent demand for the products Finning sells.

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