



TFSA Investors: Bet on This Mid-Cap Canadian Stock for 100% Upside

Description

When giants collide, people around them suffer collateral damage. When countries fight, businesses suffer. One such company has been **Linamar** ([TSX:LNR](#)). Linamar is the second-largest automobile parts manufacturer in Canada, and the company has been hit by the U.S.-China [trade dispute](#) as well as a slowdown in the global vehicles market.

However, their latest numbers are optimistic and show that the company has potential to grow.

Current numbers

Linamar reported third-quarter results for 2019 in the first week of November. Sales for the third quarter of 2019 were \$1.74 billion, down \$97.3 million from \$1.83 billion in Q3 2018.

Transportation segment sales were up at \$1.4 billion. This was despite the global vehicle markets slowing down 3.2% and a key customer (**General Motors**) that was on strike for 10 days. Linamar's transportation segment actually increased 0.5% in sales, and boom sales outperformed the strongly declining market in both North America and Europe by a significant factor.

The trade dispute between the U.S. and China hit Linamar's industrial segment hard, as sales decreased 21.5% year over year, or \$104.2 million, to \$380.6 million in the third quarter of 2019. Apart from the trade dispute, agricultural sales were lower because of poor crop conditions and stagnant commodity prices. Normalized EBITDA came in strong at \$243.1 million.

Future potential

Linamar is betting big on Asia for the next five years. Asia will be a significant growth area for the company, with 50% growth over current sales levels booked already by 2023. Much of the growth is coming from electrified vehicle program launches, as China underlines its focus for new energy vehicles.

Around 12% of booked business is for electrified vehicles in the company's China business. Similarly, EV programs represented nearly 33% of Linamar's high-potential business wins in the region.

Linamar also parted ways with its joint-venture (JV) partners in India. Both partners took one plant each in the country as part of the JV dissolution. Linamar took over the Dewas plant in the Indian state of Madhya Pradesh, which is the newer of the two facilities.

Debt and cash flow

Adjusted free cash flow was \$90 million. Linamar's net debt stayed fairly steady at \$1.94 billion due to cash spent on the company's buyback program, the takeover of the Dewas plant, and dividends. Linamar expects leverage to be under 1.5 by the end of the year and under one next year based on continued strong and positive cash flows.

The company has repaid \$223 million of debt since its peak in the first quarter of 2018, despite soft markets. Linamar expects to generate between \$500 million and \$700 million of free cash flow this year.

Linamar is currently trading at \$44.36, and the nine analysts who tracked the stock in the previous quarter have an average price target of \$50.20 on the stock in a year. With a forward dividend yield of 1.07%, Linamar is a good stock to bet on for the next 12 months.

Linamar stock is trading at a cheap forward price-to-earnings multiple of 6.1. Compare this to its five-year estimated earnings of 9.2%, and we can see that the stock is grossly undervalued. Its five-year expected PEG ratio is 0.66, while it has a price-to-sales ratio of 0.38 and a price-to-book ratio of 0.73, making it an attractive buy for contrarian investors.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:LNR (Linamar Corporation)

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