Why NFI Group Has Tanked Over 20% This Month

Description

Shares of **NFI Group** (TSX:NFI) have fallen by 20% since the start of September 2021, grossly underperforming the broader markets. Due to the recent pullback, NFI stock is up just 4% year to date compared to the 20% returns of the **TSX**.

So, what impacted the Canadian vehicle manufacturer in September, and can it stage a comeback in the last quarter of 2021?

NFI impacted by supply chain disruptions

NFI Group is one of Canada's largest independent bus and coach manufacturers that is fast gaining traction in the electric mobility solutions space. On September 17, it lowered financial guidance for 2021 due to COVID-19-related disruptions in the supply chain as well as logistics delays.

NFI explained it has been impacted by the unavailability of critical parts, components, and chassis due to rising supply chain challenges at the global level. These issues have been significantly exacerbated since NFI reported its Q2 earnings last month.

The company has reduced new vehicle input rates temporarily by adjusting production in certain facilities. This will help NFI to control costs and preserve cash flows until supply chain availability and delivery improves, allowing the company to end 2021 with over $400 million in liquidity.

NFI, however, confirmed that these disruptions will not result in lost sales, but these revenues will now be derived in 2022 instead. It further stated that the setback is temporary, and the long-term outlook for the company remains robust on the back of government funding, record new public bidding activity, market recovery, and a multi-year backlog.

While these challenges will continue to impact NFI in the first six months of 2022, the company's management remains confident of reporting achieving adjusted EBITDA between $400 million and $500 million by 2025.

NFI expects sales between $2.3 billion and $2.5 billion in 2021

NFI revised its sales forecasts to between $2.3 billion and $2.5 billion this year compared to the previous forecasts between $2.8 billion and $2.9 billion. It now expects adjusted EBITDA to range between $165 million and $235 million compared to between $220 million and $240 million.

NFI Group sales fell by 16.4% year over year to $2.4 billion in 2020 as well. This decline in the top line meant the company also reported an adjusted net loss of $0.75 per share last year. NFI's sales growth turned positive in Q2 of 2021, as it reported a 75% increase in revenue for the June quarter.

The acceleration in revenue growth drove NFI stock higher by 12.3% after its Q2 results but the revised forecast for 2021 has wiped off recent gains significantly.

What's next for investors?

Investors should note that the ongoing headwinds for NFI Group are temporary, and the company should benefit from incremental sales going forward. The stock remains attractively valued given its market cap of $1.77 billion and a forward price-to-sales multiple of less than one.

Further, Bay Street expects NFI to improve its earnings per share to $1.11 in 2022, indicating a price-to-earnings multiple of 22.5. Comparatively, its earnings are forecast to increase by 31.4% annually in the next five years. NFI stock should remain attractive to value and income investors, given its dividend yield of 3.54%.

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