Linamar Stock Looks Like a Smart Long-Term Play

Description

The past couple of years have been difficult for the manufacturing company **Linamar** (TSX:LNR) as COVID reduced the demand for its highly engineered products, such as auto parts and industrial-strength access lifts.

Even as the economy has reopened, higher commodity costs, supply chain constraints, rising freight and labor expenses, and reduced government subsidy have taken a toll on Linamar's operations — and its stock price. Shares of Linamar have lost more than one-third of their value this year.

The macro headwinds could continue to hurt Linamar's business in the short term and limit the stock's upside. But I think Linamar has multiple growth catalysts ahead that support a long-term bullish outlook on the stock.

Growth should return to the industrial segment

Linamar's industrial segment makes agricultural equipment and access equipment such as scissor lifts. Despite strong demand for the company's products, the supply chain and labor constraints restricted the company's ability to deliver in agriculture. Higher commodity and shipping costs also remained a drag.

Although these factors are likely to keep stunting Linamar's short-term growth, management is upbeat. It expects to see double-digit growth across all regions in the access market in 2022. Its core products are gaining market share, which should turn into solid sales.

What's more, the lean agriculture inventory indicates that Linamar's ag business could benefit from solid demand. Management is confident of recouping lost sales as the supply issues ease. A strong backlog and increased market share bode well for future growth.

Electric vehicles help accelerate the mobility business

A confluence of factors, including semiconductor supply shortages; higher costs associated with material, freight, and labor; and reduction in the utilization of government support programs took a toll on Linamar's mobility segment, which makes auto parts.

Nevertheless, growing light vehicle volumes and expected improvement in semiconductor supply in the second half of the year augur well for growth. However, what sticks out as a real opportunity is the ongoing electrification trends in the automotive sector. Electric vehicles continue to provide solid multi-year growth opportunities for the company and expand its addressable market.

It's worth noting that Linamar announced record new business wins in 2021. Of those, about 20% were for electric vehicles. Moreover, the dollar value of these annualized sales is about 50% higher than the prior-year period.

Low valuation and solid balance sheet suggest upside

Many top TSX stocks are feeling pressure in the current market downturn, including Linamar. It's worth noting that Linamar stock is trading at NTM (next 12-month) EV/EBITDA and price/earnings multiples of 3.3 and 8.4 — below the historical average and well within investors' reach.

Linamar's ability to generate strong cash flows has helped the company significantly reduce its debt and become net debt-free. Its low debt and solid balance sheet position it well to accelerate its growth through acquisitions.

Linamar Looks Like a Deal Today

Even though ongoing challenges could curb the upside in Linamar in the short term, the stock looks like a smart buy to me today thanks to the company's strong growth opportunities across its business segments, record new business wins, strong balance sheet, opportunistic acquisitions, and improving cost headwinds.

Finally, Linamar stock is trading cheap, providing long-term investors a good opportunity at recent prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:LNR (Linamar Corporation)

PP NOTIFY USER

1. snahata
2. tmfwordnerd

Category

1. Investing

Date
2025/09/26
Date Created
2022/05/11
Author
snahata