

STOCK PICK

How Caterpillar dealer Toromont is weathering the oil price storm

BRENDA BOUW

Special to The Globe and Mail

Published Tuesday, Jan. 13 2015, 7:33 PM EST

Last updated Tuesday, Jan. 13 2015, 7:33 PM EST

Investors in heavy equipment dealer Toromont Industries Ltd. are benefiting from its limited exposure to Canada's ailing oil and gas sector, but some analysts expect near-term growth to be a challenge.

Shares of Concord, Ont.-based Toromont, one of the world's larger Caterpillar dealerships, have climbed by about 8 per cent in the past three months.

More Related to this Story

- [Alberta faces gloom, not doom amid oil's price swoon](#)
- [Worries rise in oil patch as Shell cuts jobs amid plunge](#)
- [Are dividend stocks running out of gas?](#)

Meantime, many of its rivals have seen double-digit stock price declines amid the collapse in oil prices that has slowed oil and gas activity in resource-rich provinces such as Alberta.

Most of Toromont's business is through its network of branches in Ontario, Manitoba, Newfoundland and Labrador, and Nunavut. They provide sales and service of equipment for industries such as construction, forestry, mining and agriculture. About 85 per cent of its revenue comes from the equipment division, while the remainder is from refrigeration services the company offers to the food and beverage industry as well as hockey arenas.

Toromont's equipment division has been challenged by the prolonged slump in the mining sector, but some believe it could benefit from a pickup in business activity in Central Canada that is expected to be driven by the weak Canadian dollar and strengthening American economy.

"I think it's an interesting little riff on a stronger U.S. economy and lower dollar," said Andy Nasr, managing director and senior portfolio manager at Middlefield Capital Corp. "It's on our radar."

Mr. Nasr said he would consider buying the stock for his clients if the price softens from its current

level above \$27.

Among the nine analysts who cover the stock, eight have a “hold” or equivalent rating while one rates it a “buy,” according to S&P Capital IQ. The analyst consensus price target for over the next year is just above \$28.

Analysts like the company’s steadily growing dividend, now yielding about 2.2 per cent, and say Toromont has performed quite well in a tough operating environment where there’s stiff competition.

Still, some analysts don’t expect the stock, now trading at higher-than-average multiples, to get much more of a boost in the short term.

“We like its best-in-class ROIC [return on invested capital], dividend growth potential, balance sheet optionality [the strength of the balance sheet, which gives the company financial flexibility], and management team. However, the stock looks fairly valued,” Canaccord Genuity analyst Yuri Lynk said in a note. He has a “hold” rating and \$27 target on Toromont.

RBC Dominion Securities analyst Sara O’Brien has a “sector perform” (similar to “hold”) rating and \$28 price target.

“We expect near term TIH shares to trade flat, given muted organic growth outlook,” said she in a note, referring to the company’s stock symbol.

Despite its strong performance, some fund managers are giving the stock a pass right now because the challenges its industry faces.

John Stephenson, a portfolio manager at Stephenson & Co. Capital Management, said his firm doesn’t own Toromont, even though it’s performing better than its industry peers.

“I don’t think you need to be there as an investor,” he said. “It’s a good company ... but we’re into a very protracted period of weak commodity prices, which generally isn’t good for this type of business.”

Toromont shares are up about 7 per cent over the past year while other equipment dealers have dropped. Finning International Inc. is down about 15 per cent, Cervus Equipment Corp. about 20 per cent, and Rocky Mountain Dealerships Inc., Wajax Corp. and Strongco Corp have fallen more than 30 per cent.

Raymond James analyst Ben Cherniavsky is the lone analyst with an “outperform” rating (similar to “buy”), believing it’s a good bet for investors. He has a \$29.75 price target on the stock, which is above its 52-week high of \$28.99 reached in December.

“Given its track record for solid execution and its pristine balance sheet...we continue to view the

stock as a low-risk, high-quality opportunity for long-term investors,” Mr. Cherniavsky said in a note.

Toromont Industries Ltd performance over one year

January 13 4:00 PM EST

Toromont Industries Ltd TIH-T

27.37 +0.15 +0.55%

Toromont Industries Ltd Volume

Copyright 2015 Thomson Reuters. [Click for Restrictions.](#)

More Related to this Story

- [stock pick Small-cap presents a stable outlook with high dividend yields](#)
- [Stock pick Whistler Blackcomb stock scales new heights](#)

Topics:

- [Manitoba](#)
- [United States of America](#)
- [Caterpillar Inc.](#)
- [Alberta](#)
- [Nunavut](#)
- [Toromont Industries Inc.](#)