Socially Responsible Investing – Feeling Good About Our Investments: Part IV – Materials

Description

Continuing on our series (Part I, Part II, Part III) about socially responsible investing, we move on to the materials, industrial and transportation industries.

As a reminder, socially responsible investing means investing in companies that combine strong financial performance with positive social, environmental, and governance performance.

Among the questions that need to be addressed when determining if a company qualifies as a socially responsible investment are (1) does the company respect human rights and workers' safety? (2) do the company's activities have a negative impact on land, air or water? and (3) how is the company run, or more specifically, is there diversity among the board of directors, independence and executive compensation that is reasonable?

Back in June, Sustainalytics, a global sustainability research firm, partnered with Maclean's to release their list of Canada's most socially responsible corporations. Considering that socially responsible investment assets increased 16% in 2012 and now represents 20% of assets under management in Canada, this list will definitely come in handy for many investors.

Let's take a look at Canadian companies in the materials industry who make the grade and have proven to be socially responsible.

Cascades (TSX: CAS)

According to Sustainalytics, Cascades made the list for the following reasons:

(1) The expansion of its Lachute tissue paper plant received LEED Gold certification, making it the first plant to obtain LEED-NC certification (New Construction) in the paper industry in Canada.

(2) Environmentally friendly products include 100 per cent recycled paper towel and tissue and biodegradable food containers.

(3) Through its profit-sharing plan, all employees are eligible to receive quarterly bonuses and an annual bonus based on Cascade's profits.

Financially, Cascades has been struggling for a while now. Revenue in 2012 was only marginally higher than in 2006 and EBITDA was lower. The company is currently saddled with debt, with a debt to EBITDA ratio of 5 times. Cascades has been modernizing operations and restructuring underperforming units. The company was hit again in 2012 because of the stronger Canadian dollar and significant variable cost inflation.

Iamgold (TSX: IMG; NYSE: IAG)

According to Sustainalytics, Iamgold made the list for the following reasons:

(1) Implemented a substantial environmental program to manage its tailings. The program is aligned with the Mining Association of Canada's Guide to the Management of Tailings Facilities, considered an industry best practice.

(2) Using the International Union for Conservation of Nature's biodiversity mapping and assessment tool to develop a company-wide biodiversity management program.

In this lower gold price environment, IAMGold has been hit along with all gold companies. However, IAMGold is making good progress on its US$100 million cost savings initiative that it implemented in March due to the lower gold prices. In its latest quarter, revenue decreased 17% due to lower average realized gold prices and sales.

Potash Corp of Saskatchewan (TSX: POT; NYSE: POT)

According to Sustainalytics, Potash Corp. made the list for the following reasons:

(1) One of the few mining companies to have adopted the "say on pay" approach, which allows shareholders to submit a non-binding vote on executive compensation.

(2) Implemented several projects to conserve water and, in 2012, 90% of the fresh water used for operations was recycled.

(3) The company exceeded its target to reduce greenhouse-gas emissions per tonne of product produced by 10 per cent between 2007 and 2012, achieving a 13 per cent reduction during that period.

Potash's dividend yield at this point is an attractive 4.4% however its shares have been under pressure due to the break-up of the potash producer cartel. Potash, however, has good cash flow generation and a balance sheet that is not overly stretched.

Teck (TSX: TCK.B; NYSE: TCK)

According to Sustainalytics, Teck made the list for the following reasons:

(1) As part of its strong consultation mechanisms, business units are required to provide regularly updated community-relations plans and engage specifically with women and other vulnerable

community groups.

(2) Partnering with international organizations and NGOs to reduce child mortality and illnesses due to zinc deficiency, which contributes to the death of nearly 450,000 children under five years of age each year.

Second quarter 2013 results were impacted by lower copper and coal prices, down 9% and 23% respectively. Accordingly, cash flow from operations declined 33% to $585 million compared to the same period last year. On the flip side, this mining behemoth has a very healthy balance sheet, with $2.8 billion cash as of June 30, 2013, and has reduced capital spending in response to market conditions in order to ensure its health and sustainability. Also Teck has a dividend yield of 3.12%

The Bottom Line

For the socially conscious investor, companies that have been able to deliver strong financial performance on top of adopting a socially responsible culture are a great find. We have seen many examples here in the materials portion of our market.

Two of Canada's premiere mining companies are represented on this list, but they weren't good enough to make it into our special **FREE** report that profiles 5 of the best companies that this country has to offer. One of which just got taken over at a huge premium! **Click here now** to learn more about the remaining 4 names.

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Fool contributor Karen Thomas does not own shares in any of the companies mentioned above. The Motley Fool does not own shares in any of the companies mentioned above.

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1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:IMG (IAMGOLD Corporation)
3. TSX:TECK.B (Teck Resources Limited)

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