Is This Winning Growth Stock on Your Radar?

Description

Who doesn't want their stock portfolio to be full of winners? Well, **Stella-Jones Inc.** (TSX:SJ) is definitely a winner that should be high on your watch list. Since 1999 the company has appreciated more than 7,900%! In the past 10 years alone, it has appreciated more than 790%. And in the last five years, it has appreciated more than 370%.

To put it in perspective, in the last decade Stella-Jones had an annualized return of 25%! In the last five years, the company returned 37.5% on average per year. These kinds of returns easily K.O.'ed the average market returns of 10%.

Just what kind of business does Stella-Jones operate?

The business

Stella-Jones manufactures pressure-treated wood products in North America. Its main products are railway ties and utility poles, which make up about three-quarters of its sales. So, the company's main clients are railway companies, electrical utilities, and telecoms, which provide necessary infrastructures for the economy.

Stella-Jones operates 34 wood-treating plants, 11 pole-peeling facilities, and a coal tar distillery. These facilities are located in five Canadian provinces and 17 American states.

The company's extensive distribution network across North America allows it to meet clients' needs wherever they may be in North America.

How has Stella-Jones grown?

Stella-Jones was established in 1992 when it acquired the wood-preserving division of Domtar Inc., whose operations had existed since the early 1900s. In 1994 Stella-Jones became a public company.

Since 2005 Stella-Jones has grown its earnings per share at an amazing compound annual growth rate (CAGR) of 22% with an average return on equity (ROE) of more than 20%. The company grows via organic growth and acquisitions.

Most recently in June, Stella-Jones acquired Lufkin Creosoting Co., Inc. and 440 Investments, LLC, which primarily manufacture treated poles and timbers at facilities located in Lufkin, Texas, and Noble and Pineville, Louisiana.

Recent results

In the first half of the year Stella-Jones generated sales of $984 million, which was 28% higher than the same period last year. Similarly, the company earned $137.8 million of operating income, which was 26.7% higher. And it posted net income of $89.7 million, which was 30% higher.

The strong results were attributable to organic growth and accretive acquisitions. However, the strong U.S. dollar against the loonie was a helping factor.

Growing dividend

Stella-Jones only yields 0.9%. However, it’s growing its dividend at a high rate. Since 2011 it has increased its dividend per share at a CAGR of 26%. This year marks its 12th consecutive year of dividend increases, and its payout ratio only sits at 16%.

Recession-proof

Investors should note that Stella-Jones can experience slow years. In 2009 and 2010, right after the last recession, Stella-Jones only posted EPS growth of 5% and 2%, respectively, and increased its dividend per share by 5.9% and 5.6%, respectively.

Many companies posted negative earnings growth during the recession and in the years soon after. The fact that Stella-Jones posted growth through the last recession and in the years after indicate that the company is recession-proof. It also turned out to one of the best times to buy the company.

If investors had bought Stella-Jones at the end of 2008, their total return would be more than 1,000%, and they would have enjoyed annualized returns of 37.5%.

Because of the double-digit EPS growth every year since 2011, the company’s price-to-earnings ratio expanded from 13.9 at the end of 2010 to about 19.1 today.

If investors had bought the company during the slow periods at the end of 2009 and 2010, they would have seen their investment return annualized returns of 34.7% and 35.6%, respectively.

Conclusion

Stella-Jones shares aren’t particularly cheap at about 19 times earnings, and its price can fall to single-digit multiples like it did in the last recession. Additionally, the company is much bigger than it started out, so growth going forward will most likely be slower than it was in the past.

However, the company has proven itself to be an excellent capital allocator with a track record of acquisitions and high ROE since 2005. Further, the company continues to improve its efficiency, which will reduce its costs and improve its profits.

Most importantly, old railway ties and utility poles will always need to be replaced, and Stella-Jones has a leading position in North America. So, investors should add Stella-Jones to their watch list if they haven't already. An especially good time to buy the company is when it experiences slow periods during and after recessions.

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Date
2025/08/16
Date Created
2016/08/22
Author
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