# Is it Time to Buy This Stalling Growth Stock?

## Description

On first glance, conservative investors might disregard **Stella-Jones Inc.** (TSX:SJ) because it falls under the basic materials sector in the forest products industry. However, Stella-Jones managed to grow its earnings even during the last recession, which few companies achieved.



Stella-Jones has been an outstanding growth story. Since 1999 the company has appreciated more than 7,700%!

Since the end of 2007 its annualized rate of return has been 18.9%. An investment since then would be more than 4.4 times the original investment in fewer than nine years!

### 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.

### Earnings and dividend growth

A closer look at Stella-Jones's earnings-per-share growth and dividend-per-share growth shows how strong the company is. In the past 11 years it has posted earnings-per-share growth every year, even through the recession in 2008 and 2009.

It delivered earnings-per-share growth of 5% and 2% in 2009 and 2010. And in other years it delivered double-digit earnings-per-share growth.

Because of its excellent earnings-growth record, Stella-Jones has increased its dividend for 11 consecutive years at a compound annual growth rate of 28.7%! Although it yields less than 1%, it can grow its dividend at a fast pace.

Investors who'd bought shares at the end of 2005 for a small yield of 2.5% would be sitting on a yield on cost of 21% today! And its payout ratio is still less than 16%.

Since 2005 Stella-Jones has maintained an average return on equity of more than 20%. The company will likely maintain a low payout ratio as long as it can maintain a high return on equity because the retained earnings can create more shareholder value over the long term instead of more of it being paid out as dividends.

**Conclusion**

Stella-Jones is essentially trading at the same level it was a year ago, but it has dipped 19% from its 52-week high and trades at a price-to-earnings (P/E) ratio of 18.7.



While Stella-Jones experienced strong results in the first half of the year with 28% growth in sales to $984 million, 26.7% growth in operating income to $137.8 million, and 30% growth in net income to $89.7 million, management expects softer demand for the rest of the year and for part of 2017. That's probably why shares have dipped about 8% since the Q2 results came out on August 10.

Excluding the impact of the strong U.S. dollar, Stella-Jones still experienced organic growth of 13.4% in the second quarter. So, its P/E of 18.7 isn't particularly expensive. Additionally, on top of its organic growth, Stella-Jones has had a track record of success through acquisitions and integrations since 2005. So, total-return investors should consider Stella-Jones now and on any further weakness.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:SJ (Stella-Jones Inc. )

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