



## 3 Top Reasons to Own Stella-Jones Inc.

### Description

Conservative investors might shrug off **Stella-Jones Inc.** ([TSX:SJ](#)) right away when they hear it's in the basic materials sector and yields less than 1%. However, the company is actually in a safe business and has outperformed the market in different time frames.

Investors who'd bought Stella-Jones shares 10 years ago would have started with a 1% yield and be sitting on a yield on cost of 11.4%!

### Stable business

Stella-Jones is a leading North American manufacturer of pressure-treated wood products. 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.

To be safe and to aim for uninterrupted service, these companies will continue to have a steady demand for the replacement of railway ties and utility poles as time elapses.

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.

### Stella-Jones outperforms

In roughly 10 years, Stella-Jones's annualized rate of return was 26.9%, while the S&P 500's annualized rate of return was 6.4%. In roughly five years, Stella-Jones's annualized rate of return was 34.3%, while the S&P 500's annualized rate of return was 14.5%.

One reason Stella-Jones has been so successful is its ability to acquire and integrate. Since 2005 Stella-Jones has made at least 12 acquisitions and has grown its earnings per share at a high

compound annual growth rate of 22% with an average return on equity of more than 20%.

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

### **Supercharged dividend growth**

Although Stella-Jones yields less than 1%, its dividend-growth history should catch your attention. It has increased its dividend for 11 consecutive years. Its three-, five-, and 10-year dividend-growth rates are 27.3%, 27.5%, and 29%, respectively.

Its dividend per share is 25% higher than it was a year ago. It maintains a low payout ratio of about 16%, so it has the ability to continue growing its dividend in the future.

### **Conclusion**

As Stella-Jones retreats about 20% from its all-time high at about \$43 per share, the company trades at a price-to-earnings ratio of 18.1, which is a decent valuation to pay for a company with expected double-digit growth. So, long-term investors can consider averaging in to this quality growth stock.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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