It's Time to Absorb Domtar Corp.'s 4.4% Yield

Description

It's not often that investors get the opportunity to invest in a company that's almost 170 years old, but that's exactly the case with **Domtar Corp.** (TSX:UFS)(NYSE:UFS), which was founded in 1848.

At one time, Domtar had its hands in many pies, including chemicals, consumer products, construction materials, kraft and fine paper, newsprint, containerboard, and packaging. In the 1990s it narrowed its focus on pulp and paper and maintained that focus until 2011 when it acquired Attends Healthcare Inc., maker of the Attends brand of incontinence products.

Once more it was back in the consumer products business after exiting almost 50 years earlier. It's here that Domtar's story gets interesting.

Domtar paid US$315 million for Attends, a company that, at the time, had annual revenues of US$200 million with US$39 million in EBITDA. Domtar CEO John Williams expressed confidence when announcing the deal that it could double Attends's earnings over the next five years, in part, by utilizing its own fluff pulp produced in a nearby plant.

How did it do?

In the six months ended June 30, 2016, Domtar's personal care division (Attends) generated US$60 million EBITDA from US$444 million in revenue. For all of 2015, it generated US$124 million EBITDA from US$869 million in revenue. It's blown through Williams's earnings growth prediction.

Its latest move to grow the personal care division came in August when Domtar announced it would pay US$45 million with a possible US$10 million earn-out to acquire Home Delivery Incontinent Supplies Co. (HDIS), a leading U.S. direct-to-consumer provider of adult incontinence products. With annual revenues of US$65 million, HDIS gives Domtar further penetration into its core adult market.

"Direct-to-consumer engagement and interaction is growing, and provides unique consumer and customer insights that are critical to continuously improve the value of our offering," said Michael Fagan, president of Domtar's Personal Care division. "Adding HDIS's successful high-touch service model and capabilities supports our Personal Care growth strategy."

Adult incontinence, which represents 64% of Domtar's personal care division's revenue, is no laughing matter.

The fact that consumers can buy Attends products online with easy home delivery should result in additional sales. Adding this distribution channel only enhances its ability to compete against **Kimberly Clark Corp.** and its Depend and Poise brands.

Of course, a discussion about Domtar wouldn't be complete without looking at its legacy pulp and paper business.

In the first six months of 2016, pulp and paper revenues were US$2.1 billion with US$246 million EBITDA. While its margins aren't quite as high as personal care—11.5% vs. 13.5%—there's no mistaking which business pays the bills.

Bottom line

Adult incontinence is not something that's going away. With an aging population, the need for Domtar's products will only continue to increase, while pulp and paper will always have a market, if not a booming one.

You're not going to get rich owning Domtar stock, but the 4.4% yield should be music to the ears of income investors everywhere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:UFS (Domtar Corporation)

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