1 of the Best Stocks on the TSX: Should You Buy?

Description

Since 2000 **Stella-Jones Inc.** (TSX:SJ) has returned more than 7,800%, equating to annualized returns north of 29%. To get a sense of what that means, a $1,000 investment would have transformed into more than $79,000!

In fact, investors would have gotten three times their original investment back in dividends alone–even though the stock typically pays a small yield.

Boring businesses aren't necessarily bad

Stella-Jones manufactures and sells preserved wood products primarily to North American railway and utility companies. Its wooden products have had little changes over many decades. So, little research and development costs are needed to continue making a good profit.

The company has a leading position in providing railway ties and utility poles with its network of 34 wood-treating facilities in the U.S. and Canada. On top of that, it also produces treated wood for residential and industrial uses.

In the second quarter, the firm's major revenue sources were as follows: railway ties (38%), residential lumber (27%), utility poles (25%).

railway ties
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Recent results

The company has been growing organically and through acquisitions for more than a decade. As a recent example, in the second quarter its sales grew 31.5% to $563.1 million, which were largely attributable to its accretive acquisitions. But organic growth of 13.4% is pretty amazing in its own right.

In the same quarter, operating income was $83.2 million, which was 14.8% of sales–an increase of 50 basis points from the same period last year.

Dividends

Stella-Jones's growth story also translates to its dividend growth.

The company has hiked its dividend per share for the 12th consecutive year this year at a compound annual growth rate of 21%. Yet its payout ratio is only expected to be about 17% this year.

The CEO, Brian McManus, has been leading Stella-Jones for 13 years and also serves on the company's board. So, it's likely that the company will continue hiking its payout as it continues to grow.

A few years ago, McManus said in an interview that as the company runs out of acquisitions, it will transition the company into a high dividend-paying stock, eventually paying out 50% of net earnings.

Conclusion

Stella-Jones is down 1% from a year ago. The sideways action experienced is due to demand concerns as some clients have delayed replacements for the treated wood. At $48 per share, it's not cheap; it's trading at a multiple of 19.5.

However, the company is reporting its third-quarter results this morning (November 8). So, its share price can get volatile in the near term.

In the past year, Stella-Jones has shown support in the low $40s. Any dips to that level or lower should be seen as opportunities to buy. Barring a macro event such as a recession, Stella-Jones's share price should chug along fine.

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