



Trump's Victory Won't Stop This Stock From Trumping the Market

Description

The Tuesday pullback was welcoming for investors looking for an opportunity to buy shares in the growth stock, **Stella-Jones Inc.** ([TSX:SJ](#)). The company has had excellent financial performance since Brian McManus became CEO in 2003.

Double-digit growth

From 2003 to 2015, the company has compounded its earnings per share (EPS) at an annual growth rate of 28.5%.

Looking at a more recent period, which includes the last recession, from 2007 to 2015, Stella-Jones compounded its EPS at an annual growth rate of 18.9%.

In the last three years, it compounded its EPS at an annual growth rate of 15%.

There's a declining growth rate, which makes sense because no company can grow at a high rate forever. But what do the recent results tell us?

Recent results

In the first nine months of the year, Stella-Jones reported sales of \$1.5 billion, which was 25% year over year. Excluding the contributions of acquisitions and a strong U.S. dollar, the company's organic growth was 8.8%.

In the same period, net income grew 24.9% to \$135.4 million. On a diluted-per-share basis, earnings increased by 24.8%.

However, the company had a more sluggish third quarter due to lower demands for railway ties and utility poles. The railway tie sales were 7% lower primarily as a result of lower industry demand following two strong quarters.

The utility pole sales were 12.4% higher, but that was due to a strong U.S. dollar against the loonie.

Excluding that factor, the utility pole sales actually declined 6.2%.

What this tells us is that there's cyclical in the industry demands. So, it's more telling to look at annual results rather than quarterly results.

In Q3 the company's residential lumber sales were a bright spot; they rose 101%, of which 57% was due to the Ram acquisition completed in October 2015.

For the quarter, Stella-Jones reported sales of \$512.6 million, which was 18.6% higher year over year. Excluding the contributions of acquisitions and a strong U.S. dollar, the company's organic growth was 4.4%.

Essential products

Stella-Jones has a network of 34 wood-treating facilities in the U.S. and Canada to fill the demands for railway ties and utility poles from North American railway and utility companies.

As long as there's a need for railways and utilities, which are essential infrastructures of the economy, there will be a demand for railway ties and utility poles to be replaced as they wear out over time.

Going forward

Through early 2017, management expects lower demand following strong demand in the first half of 2016. As usual, the company will continue to look for opportunities to grow its core businesses—likely through acquisitions and, of course, organic growth. Additionally, the company will benefit from a strong U.S. dollar.

Conclusion

After the 7.5% pullback on Tuesday, at \$44.40 per share, Stella-Jones trades at a reasonable multiple of 18.3. In the near term, the presidential results will likely lead to increased volatility in the market.

However, in the long term, Stella-Jones will outperform. The lower it falls, the bigger the opportunity it is for market-beating, long-term returns.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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