Why Stella-Jones Inc. Shares Fell 7.5% on Monday

Description

The huge price drop of **Stella-Jones Inc.** (TSX:SJ) shares on Monday shows that even great companies can experience bumps along the way. Stella-Jones shares fell nearly 13% to its 52-week low at the $37 level.

At times like this, shareholders shouldn't panic; instead, look at why the shares are down and perhaps even buy more at a lower price.

Evidently, some investors thought the manufacturer and supplier of railway ties and utility poles was a good deal, as the shares bounced from the low and closed higher at $39.50.

Is Stella-Jones really a good value right now? First, let's explore the reason for its drop.

Why Stella-Jones shares fell more than 7%

Stella-Jones gave preliminary results for 2016 and indicated that it had a weaker fourth quarter than in 2015. Particularly, Stella-Jones expects its Q4 2016 revenue to be $340-342 million (about 4.6% lower) and its operating income in the same period to be $27-29 million (about 42% lower).

However, that's not the whole picture. On a full-year basis, Stella-Jones still expects revenue and net income growth for 2016, which will mark its 16th consecutive year of growth!

Specifically, the company anticipates sales growth of nearly 18% to almost $1.84 billion and operating income growth of about 5.8% to $232-234 million.

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railway ties

Moreover, the issue, which caused lower sales and profitability in Q4 2016, has already been discussed by management before.

In Q3 2016, management mentioned lower railroad-tie demand at the end of 2016 and potentially in early 2017.

Come to think of it, Stella-Jones had a stellar year in 2015, in which its earnings per share were 36% higher than in 2014. So, naturally, it was more difficult to beat that growth rate last year.

Valuation

Stella-Jones won't report the financial results for Q4 2016 and the fiscal year 2016 until March. If we assume a very conservative earnings-per-share growth of 6% for the year, then the 7.5% drop brings the shares to a price-to-earnings ratio of about 18.3.

A great long-term performer

Despite the 7.5% drop on Monday, Stella-Jones has still appreciated more than 350% since 2011, which equates to an annualized appreciation of 28.8%.

From 2011 to 2016, its earnings per share increased by 137%, equating an annualized growth rate of 15.5% (again, assuming a 6% growth for 2016), and its dividend per share tripled, equating an annualized growth rate of a little more than 20%.

Yet its payout ratio remains less than 17%. So, there's lots of room for it to grow its dividend.

Conclusion

If anything, Stella-Jones's +7% drop to below $40 is a good opportunity to buy a great long-term performer at a lower price.

Analysts at **Thomson Reuters** have a low 12-month price target of $50 and a mean target of $52.90 on the stock. This implies the shares have upside potential of at least 26% from current levels.

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