



Should Investors Consider Cascades Inc.?

Description

For investors looking to put their money to work in a defensive business, shares of **Cascades Inc.** ([TSX:CAS](#)) may just be what is needed. Recently added to the S&P/TSX Composite, the company has a market capitalization of close to \$1.6 billion and trades at a price close to \$17 per share.

Investors have done very well by holding shares in the company over the past year, experiencing an increase of 75% while collecting a very small dividend. At current levels, the dividend is just shy of 1%. Although investors have done well, there may not be much room for further price appreciation given current levels.

The company, which manufactures and sells packaging materials in addition to toilet paper and paper towels, is in a business with very little room for margin expansion. Although there is a clear advantage to having the right distribution set up from coast to coast, the reality is that manufacturing these products is not very complicated. In fact, it can be replicated fairly easily as long as economies of scale are reached.

Growth has been very good considering the maturity of the industry. Revenues rose from \$3,370 million in fiscal 2013 to \$4,001 million in the most recent fiscal year (2016). The compounded annual growth rate (CAGR) amounts to 5.89%. Earnings per share (EPS) have been inconsistent. With positive earnings in two of the last four years and negative earnings in two of the last four years, the company has made profit of no more than \$1.59 per share over the past four years (in aggregate) with \$1.46 coming in the most recent fiscal year.

Given the defensive nature of the business, investors need not look only at EPS, but also at the cash flows from operation (CFO) as the company's operations are very long term in nature. The CFO has grown from \$224 million in fiscal 2013 to \$372 million in fiscal 2016. The CAGR is nothing short of 18.4%!

With day-to-day operations improving year over year, investors need to ask themselves if this is a name they will be comfortable holding during all phases of the economic cycle. While defensive names have performed very well in the last six months or so, cyclical names have not fared as well. Should

there be a shift in the economic cycle, the market may begin to favour different types of companies and the expense of those which are “en vogue.”

Cascades has clearly been consistent with both depreciation and investments in capital expenditures closely aligned, which will hopefully lead to continued (and consistent) cash flows from manufacturing operations. Will the current share price deliver enough potential for capital appreciation for investors to buy and hold?

For some investors, the stock will have to be significantly lower before it becomes of interest. Remain diligent.

CATEGORY

1. Investing

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1. TSX:CAS (Cascades Inc.)

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