This Stock Has Strong Earnings Growth and a Dividend Yield Over 4%

Description

Income investors are always on the lookout for quality buys. Today, let's look at a wood manufacturing company with good earnings growth this year and a nice dividend yield.

Norbord Inc. (TSX:OSB)(NYSE:OSB), based in Toronto and established in 1987, is an international producer of wood-based panels used in the construction industry. It has multiple locations in Canada, the U.S., and Europe. It also produces particleboard and furniture in Europe.

Norbord by the numbers

Norbord released second-quarter results in July. Adjusted earnings were U.S.$1.10 per share, beating expectations of U.S.$0.98 per share and last year's second-quarter results by US$0.61 per share. The company has a net profit margin of 13.52%, among the best in the industry. The stock also boasts a return-on-equity number of 39.19% — well above the 15-20% that analysts like to see.

Over the last three years, revenue growth has averaged 9.56%, which is actually worse than the industry average of 12.45%. While the numbers look good overall for Norbord, there is room for improvement. The stock's debt-to-net-equity ratio is at 1.26, and it has gotten higher over the past few years, so investors should pay attention to the increasing debt level.

The stock currently trades near its 52-week high of $46.90, so it is not on sale. Analysts think the stock price will only improve slightly over the next 12 months, so this isn't the right stock to make a quick buck with. Norbord has a trailing P/E ratio of 12.34, so the earnings aren't very expensive for investors.

Norbord's current quarterly dividend sits at $0.30 per share, giving it a nice yield of 4.39%. This is up significantly from $0.10 per share in the first quarter of 2017, and it's the first increase in a few years. The stock used to pay a higher dividend of $0.60 per share in 2014, so the offering dropped significantly before increasing this year. This volatility in the dividend is a little concerning.

The wildfires in western Canada this year also halted some of Norbord's operations for a couple of weeks in July, while fire crews fought the blazes. There was no damage to the mill involved, so full operations were able to resume by the end of July, making the fires only a temporary blip for the company.

Investor takeaway

The trajectory for Norbord looks good right now. Earnings are up, and the profit margin looks good. The company was able to increase its dividend. Increasing debt is an issue, and revenue growth over the past few years hasn't been as high as some industry players, but the stock looks fairly solid overall. If you are looking for an income-producing stock, Norbord deserves your consideration.

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