This Low-Risk Stock Posted Another Strong Quarter

Description

Low-risk stocks may be unexciting, but some investors may be willing to trade lower returns in exchange for less volatility from their stocks. **Domtar Corp.** (TSX:UFS)(NYSE:UFS) is a low-beta stock, indicating that it follows the market pretty closely and doesn't deviate too greatly from how the TSX is doing.

The company released its third-quarter results last week, which showed Domtar recording earnings per share of $1.11, which is up from $0.94 a year ago. Sales for the quarter totaled $1.29 billion and were slightly up from the $1.27 billion the company recorded in the previous year.

Let's take a closer look to see if the stock is still a good buy after its latest earnings release.

Personal care sales pushed quarterly revenues up, but pulp and paper continues to drive income

In Q3, personal care sales were up 9%, while pulp and paper revenue was flat. However, it was pulp and paper that saw an increase in operating income, with profits up 4%, while personal care profits were cut in half. President and CEO John Williams remained optimistic about the personal care segment, claiming in the press release that "price pressure and raw material headwinds negatively impacted margins in the quarter but we achieved a 9% increase in infant diaper volumes, we are delivering cost savings and our sales pipeline remains strong."

Unfortunately, the increase in pulp and paper profits was not enough to offset the drop in personal care, as earnings before taxes were down 2% from last year.

Income taxes were down $13 million for the quarter and were the reason that the company saw an increase in net earnings, which were up just $11 million from 2016.

Consistent sales provide investors with a low-risk investment

In each of the last six quarters, the company has been able to achieve sales of over $1.2 billion, and in each of the past five years, total revenue has always finished above $5 billion. Although Domtar may not offer high growth, the company has been a model of consistency.

Net income has seen a bit more variability, but the company has still been able to be profitable in each of the past five years, and in four of those years, profits have been north of $125 million.

Guidance for Q4 shows mixed expectations

The company expects to see maintenance expenses up next quarter for its pulp and paper segment. Although recent price increases could see pulp revenues rise in Q4, paper sales are not expected to be as strong, because seasonal changes in product mix are likely to lead to unfavourable results for the segment.

However, Domtar's personal care segment is expected to see greater volume and lower costs in Q4, which should give the segment a boost next quarter.

Is Domtar a stock you should own?

If nothing else, Domtar offers a lot of stability for investors, while a strong and growing dividend gives shareholders an opportunity to accumulate income as the stock grows as well as take advantage of a rising U.S. dollar.

In the past year, the stock has increased 20% in value, and over five years it has appreciated nearly 50%. With a wide range of customers and products, Domtar is a good and stable investment to add to your portfolio.

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