Paper or Steel: Should You Buy Domtar Corporation or Stelco Holdings Inc.?

Description

The S&P/TSX shed 228 points on February 28, as comments from new U.S. Federal Reserve chairman Jerome Powell sparked yet another global sell-off to book end the month. The TSX is now down 4.7% for the year and the uptick in mid-February for indexes has the makings of a bull trap. That is not to say that investors should be heading for the exits, but a portfolio reshuffling may be in order.

Today, we are going to look at two companies that service key industries. Both stocks offer income going forward.

Domtar Corporation (TSX:UFS)(NYSE:UFS)

Domtar is a designer, manufacturer, and distributor of fibre-based products. It is the largest integrated producer of uncoated freesheet paper in North America. Shares of Domtar have dropped 7.6% in 2018 as of close on February 28, but the stock is up 13.2% year over year.

Domtar released its 2017 fourth-quarter and full-year results on February 8. The company reported a net loss of $340 million in Q4 compared to net earnings of $70 million in Q3 and $47 million in the prior year. It also posted a deferred tax benefit of $186 million due to the U.S. Tax Cuts and Jobs Act, which was enacted in December 2017. For its 2018 outlook, Domtar projected that price increases across pulp and paper grades would fuel growth.

The company also hiked its dividend by 4.8% to $0.55 per share, representing a 3.8% dividend yield. Operating costs were a drag in the fourth quarter, and Domtar expects freight, labour, and raw materials costs to increase in the coming year.

Stelco Holdings Inc. (TSX:STLC)

Stelco is a Hamilton-based company engaged in the production and selling of steel products in North America. Stelco stock has climbed 11.7% in 2018 thus far. Shares are up 50% since its initial public offering in November 2017

The Canadian steel industry was hit with some troubling news in mid-February after the U.S.

Commerce Department unveiled a proposal to the White House that could potentially see 24% tariffs put on steel imports. The U.S. is by far the largest customer for Canadian steel. However, the proposal includes a "surgical option," which would exclude major U.S. allies. Ultimately, Canadian steel is not expected to bear the brunt of the proposed tariffs.

Stelco released its 2017 fourth-quarter and full-year results on February 21. Revenue in the fourth quarter jumped 45% year over year to $452 million, and adjusted EBITDA surged 245% to $69 million. For the full year, Stelco saw revenue increase 23% to $1.6 billion and adjusted EBITDA rise 145% to $216 million. Adjusted net income also rose to $45 million compared to a $137 million loss in the prior year. Stelco announced a quarterly dividend of $0.10 per share, representing a 1.5% dividend yield.

Which stock should you buy?

The performance at Stelco is too hard to ignore, especially after the announcement of a solid quarterly dividend. Domtar could be an interesting buy-low candidate, but I like Stelco as an ironclad buy-and-hold stock right now.

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