



## Stella-Jones Inc. (TSX:SJ): Is it a Buy, Hold, or Sell?

### Description

**Stella-Jones Inc.** ([TSX:SJ](#)) is a well-managed company with consistently high returns. The stock has appreciated about 10% in the last 12 months and is trading near the midpoint of its 52-week trading range. Should investors consider buying the quality stock today?

Let's first take a look at its business.

#### A business overview

Stella-Jones is the North American leader in manufacturing pressure-treated wood products. It has 37 wood-treating facilities across 16 U.S. states and five Canadian provinces.

Stella-Jones's primary products are railway ties and utility poles. So, its key customers include America's largest railroads, telecom providers, and electrical transmission utilities.

#### Consistent profitability

Stella-Jones's returns on equity (ROE) and returns on asset have been at least 14.9% and 7.7%, respectively, every year since 2008. In fact, its 2008 ROE was the highest in the period, which indicates that it is a recession-proof business.

Here's more evidence that it's recession-proof. The business increased its earnings per share at a double-digit rate in 2008 and continued growing its earnings per share every year through 2016.



## Putting price and value in perspective

Stella-Jones had an exceptional year in 2015 with earnings-per-share growth of 36%! So, it was natural when growth tapered off in 2016 and demand tapered off in 2017, which led to earnings decline for that year.

When [a stock has an exceptional year](#), investors should question how much upside is left in the near term and be careful of not getting swept in by the euphoria.

Stella-Jones stock appreciated 33% in 2015. At the start of the year, it traded at a price-to-earnings (P/E) multiple of about 21.8, which wasn't exactly a bargain. By the end of the year, the stock's P/E expanded to about 25.7. When growth tapered off, the stock fell as much as 25% from a high in 2015 to a low in 2017.

In early 2017, the stock traded at a P/E of about 18.1 and at about \$39 per share, which was a reasonable valuation to pick up some shares.

## Is the stock a buy, hold, or sell today?

At about \$48 per share, Stella-Jones trades at a P/E of about 22.2, while it's expected to increase its earnings per share at a rate of 15-17% for the next two years. So, the stock is reasonably valued here and is considered a hold.

In the past, there have been times when Stella-Jones experienced slow, single-digit growth. Those have been good times to buy, though they're hard to come by.

In the last recession, the stock fell to a low P/E of 6.2, despite business fundamentals remaining strong with earnings growth. That was a rare opportunity to buy the stock, which has delivered annualized returns of 33% since then.

## Investor takeaway

Stella-Jones continues to grow the business in a [steady-Eddie](#) way. It recently had two tuck-in acquisitions, and management expects that sales and operating margins will improve this year.

The stock is reasonably valued for a hold. Investors looking to buy the stock should consider scaling in at a forward P/E of about 18 or paying a maximum price of about \$42 per share for the stock. If the stock trades at a single-digit P/E again (a maximum share price of about \$23), it would be the time to

back up the truck!

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