2 High-Return Stocks to Buy as Lumber Continues to Rally

Description

Domestic lumber has seen a real surge this year, with high price volatility stirred up by NAFTA news and changes to environmental legislation. A few Canadian lumber companies have capitalized on higher-than-expected income, taking the opportunity to expand and increase profits.

Let's take a look at two lumber stocks on the TSX that have seen high growth this year. We'll factor in some fundamentals, too, to help decide whether either of these high-growth stocks are worth adding to your domestic materials portfolio today.

Canfor Corp. (TSX:CFP)

A Canadian forest and wood products leader, Canfor is a nicely diversified stock that produces more than just the usual pulp and paper. It is also into wood products, pellets, and green energy, making for a great two-for-one stock if you were looking to build up your materials and energy portfolios in one fell swoop. Servicing both the U.S. and Asia, you're also looking at fairly good geographical diversification.

Currently enjoying a very tidy 30% year-to-date return, this stock is performing above and beyond the norm for the Canadian market. Looking ahead, we can see an expected 20.8% return on equity for 2019 and a projected 10.9% return on assets for the same period.

A P/E of 11.1 times earnings is a good start if you're looking for value indicators in Canfor's multiples. However, its P/B of 2.3 times book is a little steep. This isn't made better when you look at its expected contraction by 9.4% in annual earnings, potentially making for a lean year ahead.

West Fraser Timber Co Ltd. (TSX:WFT)

Like its competitor above, West Fraser Timber has a finger in several pies. Investors looking for instant diversification should consider West Fraser Timber's operations in lumber, paneling, fibreboard, pulp, pellets, and energy. It's had a great year to date, gaining 20.9% since the start of 2018.

West Fraser Timber's ROE and ROA look great for 2019, too. Check out that 19.5% return on equityfor next year, with a complementary 12.2% return on assets for the same period.

Discounted by 16% compared to its future cash flow value, this stock is looking like a very strong buy. Its P/E of 11 times earnings is a further sign of good value, while its PEG is sitting at market weight, signaling that this stock is priced around where it should be. However, its P/B ratio of 2.5 times book does not back this up, meaning that more data will have to be sifted if you want to be assured of value. A moderate 11% expected annual growth in earnings is reassuring, however.

The bottom line

These are two very healthy stocks with acceptable debt levels. While not being picks for dividend investors (although West Fraser Timber does offer a 0.63% yield), Canadians looking for fairly good value stocks that are outperforming the TSX on income may want to give them a second look. West Fraser Timber has the edge here as well as where growth is concerned, making it a solid choice for investors seeking stocks with upside.

Meanwhile, Canfor may be worth keeping an eye on for a while if you want to add it to your portfolio. While its growth spurt signals good things for the industry, perhaps wait to see how that added income is put to use before making a purchase.

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