Forget Softwood Tariffs: This Canadian Lumber Stock Is Solid

Description

Canadian forest and wood product companies have seen quite a rally so far this year, making buyers bullish on domestic lumber stocks. While some of this trading may have been sparked by investors capitalizing on value opportunities opened up by the softwood tariff, the fact is that Canadian lumber is booming in 2018 and looks set to continue the trend for the rest of the year.

Here is one of the best Canadian lumber stocks to buy for your consumer defensive portfolio. It's been having a great year, but will that growth last, and is this stock good value today?

Norbord Inc. (TSX:OSB)(NYSE:OSB)

Panel board and housing construction are two of Norbord's most well-known areas of operation, though investors should be aware that renovation and repair are also major initiatives. These last two areas of industry are important, as a hardening real estate industry may push homeowners towards the maintenance of existing properties and away from selling.

Boasting moderate geographic diversification, Norbord is active in Europe, Canada and the U.S. If you've ever used SolarBord, TruDeck or StableDeck in your renovation or building projects, then you already know this stock.

Discounted by 21% compared to its future cash flow value, Norbord looks at first glance to be good value. Its multiples don't tell a consistent story, however. While its P/E of 7.5 times earnings may be indicative of underdevelopment. Coupled with a worrying -0.3 PEG times growth and telltale P/B ratio of 3.3 times book, you might want to start looking for the source of the fire. Sure enough, an expected 22.3% annual contraction in earnings reveals why those multiples are so wonky.

It's been a great 12 months for Norbord, however. The year to date has seen a 30.9% total return, while growth investors should be interested to see a projected return on equity of 43.7% for next year, plus a corresponding 23.1% expected return on assets for the same period.

Real estate's losses could be Norbord's gain

If the Canadian housing market fails to soften and rising interest rates continue to impact the real estate industry, there may well be a bursting of a domestic property bubble on the cards. If this happens, Canadian homeowners may look to renovations and home upkeep as a workaround to selling in a contracted market.

This in turn might mean good news for stocks like Norbord, which would no doubt enjoy a rise in sales and maintenance services. While it's possible that a slowdown of Canadian property development is behind Norbord's predicted contraction, capital gains investors may wish to own the stock for hidden upside. This would come from a possible economic downturn, and is something that multiples and estimated forecasts may be unable to predict.

The bottom line

Keep watching the news for possible real estate contraction. Should it manifest, share prices in affected companies are likely to dip, thereby creating value opportunities in the more stable entities. Norbord is just such a stock. It's able to weather an economic downturn, and is definitely worth having in the consumer defensive section of your investment portfolio.

Should you look beyond those odd multiples and buy for the dividend yield 0f 4.33%? It may be worth taking a gamble on a bursting real estate bubble. If it happened, a downturn could see a contraction of some aspects of Norbord's operations –but not all — and it may also add some hidden upside.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/17
Date Created
2018/07/23
Author
vhetherington