Think Canadian and U.S. Housing Will Continue to Roar Higher? Consider These 3 Construction Stocks to Build Your Dividend Portfolio

Description

Housing is an obsession in Canada. Markets like Toronto and Vancouver have been on fire for years, leading some to speculate as to whether the streak can continue. The United States is also experiencing a resurgence in housing after a decade of recovery from the collapse of 2007-2009. If you are in the camp of people thinking the housing boom can go on for some time, then one thing is for certain: people are going to need materials to continue building houses to meet demand.

Luckily, Canada has a number of companies that more or less directly supply the housing sector. Companies that deal in wood products in particular benefit from housing construction and renovation. Combine the hot housing sector with reduced stock prices from trade and tariff talk, and you have a recipe for picking up profitable stocks at reduced prices.

West Fraser Timber (TSX:WFT)

West Fraser is the largest of the three companies listed. It provides a large variety of building products to the housing industry. The company is also arguably the cheapest, trading at 5.2 times earnings. The company primarily provides building materials to the housing industry of Canada and the United States, both for new builds and renovation work.

West Fraser has a relatively low dividend at less than 1%, but the company has been growing that dividend and generally maintains a low single-digit payout ratio. West Fraser has a decent balance sheet and has been committed to reducing its share count over the years.

Western Forest Products (TSX:WEF)

This company provides lumber materials, such as dimension lumber for building framing, to the housing industry. Most of its revenue (58%) comes from Canada and the United States, giving investors exposure to those hot housing markets. It is also building its international network, shipping its products abroad to Europe, Asia, and the Middle East.

The company pays a dividend of just under 3.5%, which includes a May hike of 12.5%. It also increased its adjusted earnings in Q1 2018 by 26%, establishing confidence in the future stability of its dividend. Western Forest Products arguably has the best balance sheet of the three, being debt-free. It also is buying back shares and reducing its share count.

CanWel Building Materials Group (TSX:CWX)

Providing trim and treated wood products to the construction industry, this company is more specialized than the other two. The company also has the largest dividend of the three, currently sitting at 8.43%. In Q1 2018, CanWel announced that it increased sales by 32.4%. Most of this was due to its Honsador acquisition and an upward trend in construction material pricing.

While these factors are all positive and the dividend looks great, investors need to look at the balance sheet. The company's debt has increased considerably, as has its share count. Investors should keep an eye on its future earnings, debt-reduction plans, and share inflation to determine its future stability as an investment.

Building a thesis

If you have a positive view of the future of housing, any of these three companies should benefit. But if you have to choose, I would probably go with Western Forest Products. While it is not as large as West Fraser and doesn't have the big dividend of CanWel, Western Forest Products has a great, growing dividend at the current stock price and is essentially debt free. However, any combination of the three could benefit from continued housing strength.

CATEGORY

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2. TSX:WEF (Western Forest Products Inc.)
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