Which of My 2 Favourite Undervalued Lumber Stocks Is a Better Buy?

Description

There are some distinct trends in undervaluation on the **S&P/TSX Composite Index** at the moment: miners, auto-related companies, and forest product companies. While miners are getting a fair amount of speculative airtime, auto stocks are being widely ignored – in part because of the fear of additional tariffs. Likewise, lumber tariffs seem to have caused undervaluation in forest product stocks.

Is bearishness warranted in these industries, or is there a case to be made for value opportunities – rather than traps – in some of the better stocks? The fact is that there are a lot of good quality stocks out there trading at deep discounts, so if you are value focused and know how to spot a bargain, the **S&P/TSX Composite Index** is your oyster.

Below you will find two decent forest products stocks with attractive valuation; let's see which is the strongest play.

Interfor (TSX:IFP)

A domestic wood products that offers good value, Interfor is trading at a discount of 45% of its future cash flow value. Its P/E of 9.4 times earnings looks about right, while a P/B of 1.4 times book confirms undervaluation.

There's been some inside buying of shares in the last six months, though not in volumes as great as sales within the company in the last 12 months.

This stock's past performance looks solid: last year's growth of 74.5% beats its five-year average of 30.8%, but trails the industry's past one-year average of 90.7%, though a 12.1% expected shrinkage in earnings over the next couple of years doesn't bode well and suggests a value trap.

No dividends are on offer, but a low debt level of 26.9% of net worth is acceptable.

Now let's compare Interfor's data with that of **Canfor** (TSX:CFP). Discounted by 44% of its future cash flow value, we see what looks on the face of it a similar valuation; however, a P/E of 7.1 times earnings is slightly lower than Interfor's, a readable PEG of 3.5 times growth indicates growth ahead, and a P/B of 1.6 times book is in line with that P/E ratio.

Last year's growth of 103.1% beats that past-year industry average of 90.7%, as well as its own five-year average of 15.3%, while a 2% expected annual growth in earnings over the next couple of years is at least positive.

Again, no dividends are on offer, though a debt level of 16.8% of net worth is even lower than Interfor's. In terms of inside buying, more shares were bought than sold in the last 12 months, signaling greater confidence in business than is the case with Interfor.

The bottom line

Two great industries and three quantifiably undervalued stocks. Of the forest products stocks, Canfor is the strongest buy, based on growth both past and future. Where it falls down on value is its PEG, which is a little high for its expected growth.

However, it remains a good quality stock with low debt, and at least signals some growth ahead, making Canfor a value opportunity and therefore a decent buy.

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