# Discount Lumber or Auto Stocks? 1 of These Sectors Offers More Shelter

## Description

Two great Canadian industries, two discounted stocks. We're going to comb through the data for two popular tickers – one for lumber and one for the auto industry – currently to be found in the bargain basement of the **Toronto Stock Exchange** (TSX).



We'll see which one has the most attractive valuation, which pays the meatier dividend, and perhaps most notably in today's uncertain economic climate, which one offers the better shelter for investors.

**West Fraser Timber** (TSX:WFT)

Never mind the lumber tariffs placed on our forest products: the forest industry in Canada isn't going anywhere anytime soon. Some forest product stocks are a better buy than others, though, which is why checking multiples, past performance, and other indicators of quality is key to a good investment.

After combing through the data, West Fraser Timber comes out as one of the most solid stocks to be found on the whole of the TSX, and also one of the most affordable, let alone in the lumber sector.

West Fraser Timber's market cap of CA$6 billion should satisfy traditionalist investors that this is a stock to be reckoned with. A P/E of 6.9 times earnings is more than reasonable, while an astounding one-year past earnings growth of 91.2% average beats the one-year past earnings growth of the Canadian forestry average of 90.7%, as well as its own five-year average past earnings growth of 21.7%.

A dividend yield of 1.03% means that holding this stock long term could pay off. A debt level of 22% of net worth should enable the more risk-averse to do exactly that. Growth investors may wish to steer clear, though, as West Fraser Timber is looking at a contraction of 7.2% in earnings over the next 1-3 years.

A return on equity of 29% last year should satisfy those looking for quality, while undervaluation is confirmed by a discount of more than 50% of the future cash flow value.

**Linamar** (TSX:LNR)

Canada's second-biggest auto parts maker boasts a market cap of CA$4 billion and has a nicely diversified geological spread, making for a lower risk play if you want to invest in the domestic vehicle industry.

It's also good value at the moment, with multiples that should satisfy even the most cost-conscious of Canadian investors.

Discounted by 10% of its future cash flow value with low multiples, such as a P/E of 6.7 times earnings, PEG of 0.8 times growth, and P/B of 1.1 times book, this is indeed an undervalued stock.

In terms of past performance, the last year's growth of 9.3% beat the industry average of 3.7% for the same period. Looking forward, an 8.6% expected annual growth in earnings over the next couple of years looks promising, while a fair amount of inside buying is also a good indicator of confidence in business.

A dividend yield of 0.78% is a little low, however, while a debt level of 73.3% of net worth is conversely a little high.



**The bottom line**

Investors with their sights set on the horizon may want to go for Linamar for growth. However, out of the two stocks, West Fraser Timber is the more defensive stock in most other regards.

While the accepted wisdom is that you shouldn't hide under trees in stormy weather, on this occasion, it may be better than sheltering in an auto.

**CATEGORY**

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

**TICKERS GLOBAL**

1. TSX:LNR (Linamar Corporation)
2. TSX:WFG (West Fraser Timber Co. Ltd.)

**PARTNER-FEEDS**

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