



## Value Play or Value Trap? Depends on Your Real Estate Outlook

### Description

The fact that real estate markets have been on fire, not just in Canada but around the world, should be no surprise to anyone. But this sector is highly sensitive to interest rates, as is any company tied to real estate and construction. Trade talks and tariffs also have an impact on the sector. As building materials, like aluminum, steel, and wood, become more expensive, so do the cost of dwellings. Increased costs have a way of decreasing demand, which is not good for anyone involved in construction.

Suppliers like **Nordbord** (TSX:NBD)(NYSE:OSB) have been feeling the pinch. Nordbord, a maker of wood-based products like wood paneling and oriented strand board (OSB) composite materials, has been hit hard. The stock is hitting new 52-week lows as investors fear trade, tariffs, and interest rates will all impact the company's profitability in the coming years.

For years, things have been working in the company's favour. Low interest rates have encouraged construction as real estate prices have soared. With operations in North America and Europe, Nordbord benefited from this worldwide real estate boom. The company is by far the world's largest producer of OSB, a material frequently used in home, furniture, and packaging construction. If there is a slowdown in global real estate, this company may be in for a rough ride if product demand fades.

Up until this point, the company has been successful financially. In the second quarter of 2018, the company increased its adjusted earnings per share by 75% over the same period of the previous year. It had excellent growth in its European operations, more than doubling its EBITDA in that region. Total sales increased by 23% year over year due to an increase in OSB prices and shipping volumes. The company also has a good balance sheet with virtually no debt due in the short term.

The company has expanded into Europe and is attempting to penetrate the Asian market. In Asia, less than 1% of wood-based building products are OSB. The majority of products are plywood, particle board (PB), and medium-density fibreboard (MDF). The company believes that Asian expansion may represent a major growth area for their products. The current trade environment, however, may hamper that strategy.

One thing you cannot count on with the company is the dividend. The policy is intentional, with Nordbord employing a [variable dividend policy](#). Essentially, this means that the company will return

capital to shareholders in the form of dividends as their financial situation allows. In difficult times, the dividend can be reduced or cut altogether, as was the case after the financial crisis. In other words, don't get attached to the current 18% dividend.

Investing in Nordbord really comes down to whether you believe that housing strength will continue and whether the company will be successful in its expansion into Europe and Asia. The U.S. housing market, Nordbord's largest area for sales, has shown recent signs of slowing, but is still forecasted to have continued strength in the coming years. If the strength continues, the current downturn in the share price will look like an excellent entry point.

The same thinking goes for its European and Asian expansion prospects. If the expansion continues to be lucrative, buying at these depressed prices could represent significant value.

Buy Nordbord if you believe in future real estate strength. Do not buy this company for the dividend or if you believe the global [real estate market](#) is heading for dark times.

## CATEGORY

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