



Top Dividend Stock for 2019: Western Forest Products Inc (TSX:WEF)

Description

Western Forest Products ([TSX:WEF](#)) isn't a household name with an \$800 million market cap, but it should be well known by all dividend investors. After falling 30% since May, the yield has risen to 4.5%, nearing its highest levels in five years.

Plus, the company has been returning funds to shareholders through stock repurchases. While this doesn't raise the yield explicitly, it's actually a more cost-effective method of returning capital. From an investor's standpoint, dividends are taxed, which can reduce your return by 20% or more. Share buybacks, however, are tax free.

Last quarter, Western Forest Products returned \$19 million to shareholders, buying back more than \$10 million in stock and paying out \$9 million via the quarterly dividend. In 2018, the company was able to invest \$64 million into its mills and timberlands, all while returning \$42 million to shareholders.

With the dividend yield nearing multi-year highs, this could be a rare chance to buy an income-producing machine. Sometimes money really does grow on trees.

Positioned for the future, while delivering on the present

Western Forest Products owns and logs timberland in British Columbia and Washington state. It has lumber capacity of one billion board feet at seven sawmills, with three centralized re-manufacturing facilities.

Over the last 12 months, the company has generated \$160 million in EBITDA from \$1.2 billion in revenue. The balance sheet is pristine, with a net cash position. By the end of 2018, the company had liquidity of \$290 million, which includes a new \$250 million credit facility.

With a clean balance sheet and ample cash flow, Western Forest Products has been able to return millions to shareholders every quarter while also investing to best position the current business for the future.

Last quarter, capital expenditures increased to \$21 million from \$15 million the quarter before. Nearly \$6 million of that was to finish upgrades to its Arlington distribution and processing facility, which should significantly upgrade the opportunities in the region.

Expected to come online in early 2019, the Arlington facility will allow the company to

1. Increase its production of specialty products;
2. Boost margins by producing more finished products; and
3. Better centralize warehousing and distribution capabilities closer to the end customer.

Expect the dividend to rise and share buybacks to accelerate

Last quarter, Western Forest Products paid roughly \$9 million in dividends, a 13% increase from \$8 million the year before. The company also accelerated share repurchases in the third quarter of 2018, spending \$11 million to repurchase 4.6 million shares. The average repurchase price was \$2.27, much lower than the average share price over the past 12 months, meaning management is being opportunistic rather than buying back shares at any price.

With outsized capital expenditures finishing up important growth projects, anticipate the company's cash flow to rise in 2019. That should support another boost in the dividend (which could surpass 5% at current prices) while allowing the company to continue buying back shares at historical discounts.

With one of the best balance sheets in the industry, Western Forest Products is prepared to withstand any industry shock. In fact, it can take advantage of its competitor's woes by snapping up assets at a discount. That's exactly what it did in November, when it bought Columbia Vista for \$30.5 million, providing a reliable platform for growth in the U.S. Pacific Northwest.

In any market conditions, Western Forest Products is positioned for success. Long-term income investors would be wise to add this stock to their dividend portfolios.

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