



## Is This Company a Buy After Its Latest Earnings Report?

### Description

**Norbord Inc.** (TSX:NBD) (NYSE:OSB) released its fourth quarter and end of year earnings On February 1. The company's results were higher than most analysts' estimates. Norbord reported record earnings before taxes, interests, depreciation and amortization (EBITDA) of \$724 million, which represented an 8% increase year over year.

Norbord's diluted earnings per share also increased by 6% compared to last year. Norbord has had its shares of challenges recently, however. The company's share value decreased by about 40% from September to November of last year and has yet to fully recover. Now may be a good time to purchase shares of Norbord, but only if the company's prospects are bright.

### A secure industry?

Norbord's products are used primarily in the construction of new homes and in the repair and renovation of existing ones. This industry is rather cyclical. Home starts and repairs are very frequent when the economy is booming, as people have more money in their pockets. In times of economic downturns, home starts and repairs are much less frequent. Home construction and repairs are also more common during the spring and summer.

This cyclical nature can directly affect Norbord's financial results, as the demand for the company's products will inevitably decrease. Despite the instability of the real estate industry, it is on a general upward trend, at least in terms of size. People will always need to build homes, and a company such as Norbord whose products are used within the real estate market are likely to find business long as they stay on top of market trends and the competition.

### International expansion

Norbord's typically generates about 20% of its earnings from Europe. The company's latest earnings report showed an increase in EBITDA of more than 100% for its European operations. One reason that Norbord is less popular in Europe is because of differing construction standards. Norbord is the world's largest producer of a type of wood known as Oriented Strand Board (OSB).

The demand for OSB is significantly lower in Europe, however, as it's not as frequently used in home construction and repair projects. According to Norbord's latest MD&A, the demand for OSB is currently on the rise in Europe

### **The bottom line**

Norbord industry isn't the most exciting or the most profitable. However, the company is quietly producing good financial results and looking to expand its overseas operations. Investors and analysts may be wary about some aspects of Norbord, however.

First, the housing market very cyclical. Second, Norbord has a variable dividend policy in place, that is, the company issues dividends only when it is financially able to do so. These two factors raise concerns and outweigh the positives, in my opinion.

Norbord is practically a non-starter for income investors, and the company's growth prospects [seem dicey](#). Investors who have Norbord on their watch lists should remember these factors.

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