



## Only Brave Investors Should Consider Cascades Inc (TSX:CAS)

### Description

You may have not heard of **Cascades Inc** ([TSX:CAS](#)), but you've likely used one of its products.

Cascades designs and manufactures the protective packaging that comes with nearly every product you buy. As a specialist in paper products, the company also makes tissues, cardboard, recycled products, and more.

Paper products are a huge business. Last quarter, the company had revenues of \$1.17 billion, more than the company's entire market capitalization. Profits, in comparison, are tough to come by. Despite generating more than \$1 billion in revenues last quarter, Cascades produced just \$36 million in net income.

Despite this, the company's management team has figured out how to produce long-term returns for shareholders. Over the last five years, Cascades stock has returned roughly 38% versus a TSX return of just 10%. That's what makes the company's recent underperformance interesting. In the last 12 months, Cascades stock has fallen by one-third while the TSX eked out a 2% gain.

Due to its commoditized business model, Cascade shares have swung wildly over the years. Long term, however, they've often been a winning investment. Is this your chance at purchasing a diamond in the rough?

### A difficult race to win

Operating in a commodities business is always challenging. Looking at the company's tissue paper segment, it's easy to see why.

Last quarter, this segment generated EBITDA of \$5 million, a margin of just 2%. That compares to the \$24 million (7% margin) the segment generated the same quarter in 2017. Even compared to the quarter before, where the tissue segment produced \$7 million in EBITDA for a margin of 2%, profitability continues to slide.

Slipping profitability is occurring alongside *rising* volumes. Last quarter, total shipments rose by 4%

compared to 2017 levels. Management specifically noted “higher demand in our targeted market segments.” Higher demand can bring higher sales, but if profitability can’t match this rise, then shareholders will lose.

The lone segment that provided impressive results was the company’s containerboard segment, generating a 63% increase in EBITDA versus the year before. Last quarter, this segment generated EBITDA of \$117 million, which was good for EBITDA margins of around 25%. That compares to just 17% margins in the same quarter of 2017.

While these results seem rosy, investors shouldn’t get too excited. Nearly all the performance was driven by a \$50 per short ton price increase the company began implementing in the second quarter. Price increases are tough to achieve in a commoditized market, which may help explain why the segment’s shipments fell to 370,000 short tons on the quarter, a 4% decrease.

## Survival doesn’t mean winning

Fortunately, Cascades has managed its operations incredibly well over the years, generating small amounts of cash flow in a hyper-competitive market. Today, the company’s net debt to capitalization ratio is just 47%, its lowest level in nearly a decade.

Cascades shouldn’t have any issue surviving another decade, but long-term wealth creation for shareholders will be hard to come by. As commodity prices swing from year to year, there should be plenty of chances to make a quick profit, but good luck trying to catch the wave. You’re best off avoiding this stock altogether.

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