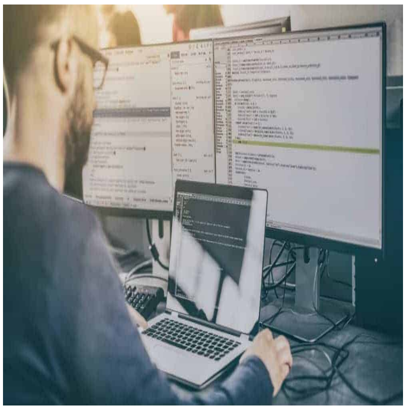

Send a Love Letter to Your Portfolio With These Paper Stocks

Description

Two stocks, one possibly overlooked investment area: paper. The following duet of TSX index tickers may not seem related on the face of it, but after considering them in tandem, it's easy to see how they are at least tangentially interrelated. The best thing about this pairing is that both stocks are healthy dividend payers with decent all-round statistics. Let's see if any more data points indicate a good fit for a passive income portfolio.

Transcontinental (TSX:TCL.A)

Printing and packaging is the name of the game for this healthy TSX index media-related stock. Up 1.6% in the last five days at the time of writing, Transcontinental is trading with a discount of more than 50% against the future cash flow value with confirmation of undervaluation provided by a low P/E of 8.3 times earnings and below-market P/B of 1.2 times book.

Before we get to the good points (and there are sufficiently many to warrant a buy signal), let's go over the red flags. These include low expected growth, fairly high debt, and an underwhelming 2018 in terms of earnings. Breaking down the stats, we have a 0.8% expected annual growth in earnings, debt of 89.4% of net worth (though this debt is well covered by operating cash flow), and one-year past earnings growth of 1%, respectively.

However, Transcontinental isn't just undervalued, it's also high quality: An expected three-year ROE of 14% continues in the same vein as a past-ear ROE of 13.2%, while its five-year average past earnings growth rate has been positive at 31%. More shares have been bought than sold by Transcontinental insiders in the last few months, while inside buying has been significantly high through the past 12-month period.

A decent dividend yield of 3.89% is the main reason to buy, though the stock also scores points due to strong management stats: Transcontinental's average management team tenure exceeds five years, suggestive of experience, with CEO compensation also being commensurate with past-year company performance.

West Fraser Timber (TSX:WFT)

Lumber, paneling, pulp, and paper are the business focal points for this sturdy TSX index forest product stock. Down 4.5% in the last five days, West Fraser Timber is currently valued close to its future cash flow value with a low P/E of 6 times earnings and near market P/B of 1.6 times book.

An expected 12.5% future return on equity, past year ROE of 28%, as well as a positive return on assets of 17% (both of which beat the industry averages for the same period) show just how high quality West Fraser Timber is; meanwhile, a 26% return on capital improves on its use of capital three years ago (see an ROCE of 8%).

This lumber stock is on a roll in terms of track record: A one-year past earnings growth of 35.9% improves upon a five-year average of 29.5%. This looks good alongside sturdy balance sheets stats: Its debt 26% of net worth is in the "acceptable" zone, and though this is an increase over the last five years, that liability is covered by earnings and cash flow.

While mid- to long-term investors may want to check their appetite for risk and balance it against expected earnings, steady inside buying over the past year at decent volumes does indicate confidence in West Fraser Timer, while a dividend yield of 1.22% is on offer, with two weeks until it trades ex-dividend.

The bottom line

Is print dead, or should investors be bullish on paper stocks, as well as other products and services of the softwood and forestry-related industries? Should there be a sea change south of the border, a relaxation of lumber tariffs could see affected stocks pop in 2019, as could alternative (or additional) positive changes to either international trade or the building sector.

CATEGORY

1. Dividend Stocks
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