Fed Up by Banks and Utilities? Buy These Materials Stocks Instead

Description

Materials are seeing some popularity with stock investors at the moment, with some observers voicing incredulity with the blue-chip bankers and utilities beloved of “classicist shareholders.” The following three stocks have seen a recent rise in their share prices, so let’s take the opportunity to see which of them represents a strong play on the TSX index.

West Fraser Timber (TSX:WFT)

Up 1.5% in the last five days, this top TSX index forestry products stock saw three-year returns of 57.7% that beat the market as well as the Canadian lumber industry. With a one-year past earnings-growth rate of 35.9% and five-year average earnings growth of 29.5%, both rates beat the industry averages for the corresponding periods, proving West Fraser Timber to be a steadily growing asset.

In terms of quality, West Fraser Timber’s past-year return on equity of 28% is significant for the TSX index, and though its level of debt compared to net worth has climbed over the past five years from 16.9% to today’s 26%, that level is both below the danger threshold and well covered by operating cash flow. It’s good value for money, too, with a low P/E of 6.2 times earnings and near-market P/B of 1.6 times book.

More shares have been snapped up than let go by West Fraser Timber insiders in the last few months, while the past year has seen encouraging volumes of shares being bought up by those in the know. A dividend yield of 1.19% offers a taste of passive income, though a projected drop of 28.2% in annual growth in earnings may be cause for concern.

SunOpta (TSX:SOY)

At close of play at the time of writing, SunOpta had gained 2.3%, making for a strong show of confidence in this soybean stock. While this is, of course, a food stock, it ticks a lot of the same boxes as a materials stock in the same way that potash producer **Nutrien** does.

SunOpta's one-year past earnings growth of 17.6% does its best to make up for a negative five-year average past earnings growth, showing a weak track record. Unfortunately, its balance sheet is also iffy, with a level of debt that's shot up over the past five years from 55.8% to 238.9% today, and less than a year of cash runway based on current free cash flow to cover it.

More shares have been bought than sold by SunOpta insiders in the past three months, however, and in significant volumes; its value-related stats also show fairly good bang for one's buck, with its stock trading at around half its future cash flow value and with a P/B of 2.2 times book.

Methanex (TSX:MX)(NASDAQ:MEOH)

Up 0.96% at the end of the day, Methanex is another stock that's proving popular at the moment with materials investors. Seeing 12-month returns of 73.7%, the methanol producer pays a dividend yield of 2.27%, and its expected 28.2% ROE over the next three years follows on from a considerable 36% for the past year.

The bottom line

While SunOpta's slightly negative annual earnings-growth rate and Methanex's projected drop of 22.7% in earnings don't bode well for the market, both stocks are reasonably moderate buys at the moment. However, West Fraser Timber comes out on top as one of the best all-round materials stocks on the TSX index.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:MEOH (Methanex Corporation)
2. TSX:MX (Methanex Corporation)
3. TSX:SOY (SunOpta Inc.)
4. TSX:WFG (West Fraser Timber Co. Ltd.)

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vhetherington