



2 Timber Stocks to Protect You From a Recession

Description

Materials stocks are a great option when looking for recession-proof investments. But while ETFs and other funds can plummet if an entire industry goes down, doing your research and finding a few stocks that could see their way through a recession unscathed could provide you with some large rewards.

Take the lumber industry. While the entire industry might still be a bit hurt by a recession, there are a few companies out there that should remain strong. Take **Canfor** ([TSX:CFP](#)) and **West Fraser Timber** (TSX:WFT). Both companies have historical performance of sailing through the Great Recession and are likely to do so again if things continue on the path they're on.

Canfor

This forest products company has an 81-year history of selling its lumber and pulp and paper both in Canada and internationally. Currently, the company offers its products in Asia, the United States, Canada, and Europe. It is, to date, one of the largest softwood lumber producers in the world and could see a serious increase in profits once the housing market heats up.

The last decade has been slow for home building, but analysts believe that is about to change across North America. Favourable demographics, looser mortgages, and a strong labour market could all push more activity in the coming decade. Canfor has been using any of its profits to reinvest towards this potential recovery.

The company had an incredibly strong 2018, with its last earnings reported at \$1.03 billion for the quarter. Sales for 2018 reached \$5.04 billion, with net income at \$488.4 million.

The recent finding by the World Trade Organization could have put a damper on things, with the U.S. winning a legal battle for [tariffs on anti-dumping](#), but luckily the company has a number of mills in the U.S. to forego those tariffs.

The bad news is, it's still a waiting game. Recently, Canfor announced a temporary cutback in its lumber production due to low lumber prices and high cost of wood supplies. This after another cut in

January at three sawmills. These cuts were also due to the forest fires in B.C. and insect infestations.

But that makes now a good time to buy ahead of a jump. Once housing recovers, this stock could jump back to its previous highs in the \$30 range. That's quite the increase from where it is now at \$13.43 at the time of writing.

West Fraser

This company is in much of the same boat as Canfor, but with a more slow and steady increase in its stock price. West Fraser went through what most of the market did back in February, and has since rebounded quite a bit, currently trading at \$66 at the time of writing compared to the mid-\$90s last summer.

Given the company's financial strength, there's really no reason it can't hit those numbers again. Its five-year past earnings growth sits at 29.5%, with a past [ROE of 28%](#). Its P/E is attractive at 6.2 times earnings, especially considering the last three years saw returns of 57.7%, beating the Canadian lumber industry average, making this a strong investment.

Just like Canfor, this company is one of the largest softwood lumber producers in the world, beating Canfor by only one billion board feet of production capacity. The company is also active in both Canada and the United States, and with homebuilding and remodeling its main focus, a housing recovery would send this stock skyrocketing.

And again, this company is just like Canfor: reinvest and wait for that housing recovery. The company is strong, and the next 12 months should prove that with analysts predicting an increase anywhere between \$70 and \$90 per share.

Bottom line

With both stocks currently undervalued and set to increase at least a little in the next 12 months, now is the perfect opportunity to buy. They shouldn't slump during a recession, and once a housing recovery happens, both are set to reach levels not seen in years.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CFP (Canfor Corporation)
2. TSX:WFG (West Fraser Timber Co. Ltd.)

PARTNER-FEEDS

1. Msn
2. Newscred

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