



## Is This Cheap 5.45% Yielding Stock a Buy Today?

### Description

There has been a lot of noise and volatility in the market these days. The [trade war](#) and tariff uncertainties are looming large and causing uncertainty and nervousness in a market that is still trading close to all-time highs.

In this volatility, one high-quality stock that has emerged, **Western Forest Products Inc.** ([TSX:WEF](#)), is trading at a dividend yield of 5.45% at writing as investors are running scared.

Is it time to scoop up this [undervalued](#) quality stock that is trading at depressed levels?

The stock is down 12% in the last year, as the success of this company hinges on continued recovery of the U.S. housing market, lumber duties that do not become more restrictive, and growth in China.

And all of these factors have been placed into question recently, thus explaining the stock's weakness.

But is the dividend at risk?

I would like to start answering these questions by looking at Western Forest Products' business and its many redeeming qualities.

A solid balance sheet with a cash balance of \$11 million and negligible debt of (net debt to capitalization ratio of a mere 14%) speaks to the sustainability and the strength of the company.

A free cash flow profile that has shown consistently strong and steady free cash flows speaks to the value generating business that Western has created.

Since 2010, Western has consistently been free cash flow positive, which as we know, is not an easy feat in a commodity business such as the lumber business.

The dividend is well covered on a cash flow basis as well as an earnings basis, with a payout ratio of 50% of earnings and 75% of free cash flow.

The company's secret is simple. More than 74% of its lumber revenue is generated from non-

commodity products, and this specialty lumber sells at a significant premium to commodity lumber.

This means that the company has a differentiated product, which makes it somewhat isolated from the supply/demand shocks that are all too common in commodity industries.

Finally, the company instituted a strategic plan in which they will invest \$125 in projects aimed at productivity improvements and cost savings.

## Final thoughts

In closing, it would be worthwhile to judge the company on those factors that it can control. In this respect, Western passes with flying colours.

For those investors who are able and willing to see beyond the noise, Western stock offers us a highly undervalued opportunity to make some dividend income and capital gains in the coming years.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:WEF (Western Forest Products Inc.)

### PARTNER-FEEDS

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