This 2017 IPO Is Down From its Debut Price: Here’s Why it’s a Bargain Today

Description

Stelco Holdings (TSX:STLC) made its debut on the TSX back in November 2017. The Hamilton-based steel company filed for bankruptcy in 2007, which subsequently led to the de-listing of its stock on the TSX later that same year. Stelco worked to streamline operations in the years since and has re-emerged after looking like it had become a casualty of the Great Recession.

The stock launched at an initial price of $17 per share. Stelco shares closed at $15.61 on July 23. The company has posted solid results since its return to the TSX, but broader economic conditions weighed on Stelco and other steel producers in 2018 and early 2019. We are seeing a return to normal this year, making Stelco stock worthy of consideration in the second half of the year.

In late May, I’d discussed the lifting of steel and aluminum tariffs by the United States. These were enacted in the middle of intense trade re-negotiations between the U.S., Canada, and Mexico over NAFTA. The original deal was eventually scrapped to make way for the USMCA — the United States-Mexico-Canada Agreement, which was drafted on September 30, 2018, and signed by all three nations on November 30, 2018.

The implementation of steel tariffs had boosted steel prices in North America. This knock-on effect was cheered on by some companies, including metals distributor **Russel Metals**. Stelco was not enthused, but it did benefit from the near-term impact of higher prices. In 2018, the company saw revenues increased 54% to $2.46 billion and operating income surged 310% to $471 million.

Steel prices have suffered in the second half of 2018 and in 2019 in the face of global economic pressure. John Ferriola, the CEO of America’s largest steelmaker **Nucor**, called a bottom in U.S. steel prices last week. He and other industry experts and projecting a slow recovery for prices as we look ahead to 2020. This gives investors ample time to review Stelco stock.

Stelco shares had dropped 30% year over year as of close on July 23. The company posted steep quarter-over-quarter declines in Q1 2019, with adjusted net income dropping 55% to $47 million, or $0.53 per share. Operating income fell 24% from the prior year to $44 million. In the late spring, reports indicated that Stelco is eager to explore acquisitions looking ahead, which should pique the interest of growth investors.

Aside from a dip in quarter-over-quarter results, Stelco is still in a strong financial position. The company finished the first quarter with no debt and $577 million in total liquidity. This sets Stelco up well to make moves in the coming quarters.

The stock boasted a price-to-earnings ratio of 5.1 as of close on July 23. This is a favourable level relative to industry peers. Stelco does offer a quarterly dividend of $0.1 per share, which represents a 2.5% yield. Investors are getting a growth-oriented stock that is well positioned to rebound and a solid dividend as an add on. I like Stelco at its current price right now.

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Date
2025/09/12
Date Created
2019/07/28
Author
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