This Growth Stock Is an Attractive Buy Now

Description

Stella-Jones (TSX:SJ) stock looks much more palatable after retreating 15% from a year ago.

A recession-proof business

The North American leader in manufacturing pressure-treated wood products has created enormous returns for long-term shareholders. SJ stock has been almost a five-bagger since the start of 2007, with more than 90% of returns coming from price appreciation.

Its fabulous dividend growth rate was 24% per year from 2007 to 2018.

SJ's return on equity has ranged from 11-19% every year since 2009. In the last recessionary period, its earnings climbed at a double-digit rate, and its return on equity was nowhere near the low in 2009 during a recession at more than 17%.

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What do recent results tell us?

Stella-Jones reported its second-quarter results on Wednesday. The stock reacted by declining 6%.

In the first half of the year, the company increased sales by 4% to $1.1 billion, helped by positive impacts from currency conversion and acquisitions. Excluding these factors, sales would have pretty much remained flat.

In the period, Stella-Jones also saw margins expansion thanks to improved pricing and operational efficiencies. Specifically, the EBITDA margin climbed 260 basis points higher to 14.3%.

Operating income came in at $122 million, which was 15% higher year over year, translating to diluted earnings per share of $1.18, which was also 15% higher.

Valuation

SJ offers a small dividend yield of 1.5%. Therefore, price appreciation and the valuation you pay for Stella-Jones stock is of utmost importance.

From 2007 to 2018, Stella-Jones' earnings per share have nearly quadrupled, increasing at a compound annual growth rate of more than 13%.

Assuming the company carries on growing earnings at a 13% rate, it trades at a forward price-to-earnings ratio of 16.9 at $37.64 per share as of writing, which makes it quite attractive.

Since the end of 2018, the company has bought back $9.8 million worth of shares at an average price of about $39 per share. So, the stock trades at a slight discount from its buyback price.

Risks and uncertainties

Making strategic acquisitions is a big part of Stella-Jones' growth story. For example, in April, the company completed a tuck-in acquisition in Ontario for $9.2 million, which helped expand its residential lumber operations in Canada.

Going forward, investors are counting on management to continue making fitting acquisitions at good valuations.

Additionally, there's uncertainty about who the next CEO will be, as current CEO, Brian McManus, will be stepping down on October 11.

He had helped navigate the company through the last recession and had driven incredible shareholder value with the stock delivering returns of 24% per year through the past 15 years or so.

Stella-Jones; CFO, Senior Vice-President and 12-year veteran Eric Vachon will serve as interim CEO while the company searches for the next CEO from within or outside the company.

Foolish takeaway

SJ stock is substantially cheaper than it was a year ago, as it's weighed down by near-term uncertainties. As such, it's a good time to start building a position in the growth name.

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