TSX:UFS? More Like TSX:UF-YES!

Description

Despite being an obscure stock, **Domtar** (TSX:UFS) is not in the business of disappointing investors. With a dividend yield of 5.393%, an investment of a mere $10,000 in the company results in gains of $539 in just one year!

For those of you unfamiliar with Domtar, it's in the fiber-based products business and specializes in pulp and paper as well as personal care. Its pulp and paper division generates the majority of its revenue. Most of its sales are from the United States.

Domtar is a good investment due to its consistent operating cash flow and its high working capital.

Consistent operating cash flow

You don't have to be a genius to know that cash is the name of the game.

One way that a company's health is measured is by using its operating cash flow. Operating cash flow describes cash that the company generates from its day-to-day operations.

Domtar is particularly good at generating operating cash flow as indicated by five strong years of operating cash flow in excess of $400 million. Given its current debt and capital lease obligations of $1 million, the company is able to pay its current operating liabilities 400 times over.

As an investor, this is very good news as it indicates that the management team is fiscally responsible. A management team that lacks this discipline would commit to more current debt and capital lease obligations than its operating cash flow, which means the company would not be able to satisfy its obligations with internally generated cash.

High working capital

I cannot stress enough how important working capital is to a company.

Working capital is calculated by subtracting current liabilities from current assets. It's described as a working capital surplus or a working capital deficit.

With $1.6 billion in current assets and $783 million in current liabilities, Domtar has a working capital surplus of $800 million.

This is good news for investors, as it indicates the company has enough assets to service its liabilities and also has additional assets for the sole purpose of generating additional revenues.

In the business world, everyone knows that assets are used to grow the business and with a working capital surplus this is greater assurance that the company has the potential to grow.

Summary

Domtar is by no means a sexy stock.

Being in the fiber-based products business with a focus on pulp, paper and personal care does not give credence to an innovative or cutting-edge company.

That said, Domtar is very good and delivering predictable results to its investors, demonstrated by its 5.393% dividend yield and its stable revenues in the past five fiscal years.

This predictability has permeated into other areas of the business such as operating cash flow and high working capital.

As an investor, you want strong metrics in both these categories as a high operating cash flow indicates the company does a good job at generating revenue from its main business and high working capital dictates the ability of the company to grow.

Overall, TFSA and RRSP investors will be very pleased with an investment in Domtar.

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