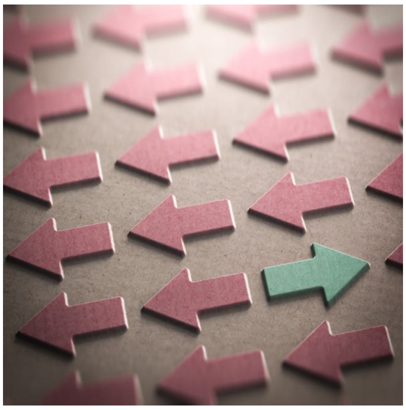

This Oversold Canadian Wood Stock Seems Ripe for Contrarian Investors

Description

When there are talks of a recession going on, investors start seeking out safe stocks, which includes companies whose businesses are not dependent on economic cycles. You want a stock with steady revenue streams. It helps if the stock in question has been beaten down, so you can get it at a good valuation.

Stella-Jones (TSX:SJ) is one of North America's major producers of industrial pressure-treated wood products. With over 35 plants across North America, the company manufactures and distributes railway ties, utility poles, and residential lumber and industrial products across the continent. SJ recorded sales of $1.9 billion in 2018. The stock is currently trading at $38.25, down almost 21% from its 52-week high of $48.28.

How did Stella-Jones perform in Q3?

The company reported its numbers for the third quarter of 2019, and while sales have gone down, SJ has increased its profitability. Sales in the third quarter reached $626.6 million, decreasing slightly by $3.4 million from the same period in 2018.

Gross profit amounted to $110.2 million in the third quarter of 2019 compared with $97.4 million last year. The increase was attributed to higher selling prices, lower lumber costs when compared to last year, and improved operational efficiencies.

EDITBA stood at $96.1 million, or a margin of 15.3%, versus $78.5 million, or a margin of 12.5%, last year. Stella-Jones's EBITDA has increased by over 10% year over year — a very healthy growth rate. Net income for the third quarter of 2019 was $53.7 million, up from $45.8 million last year.

These solid margins will be used primarily to reduce debt and repurchase shares. Cash flow from operating activities reached $97.4 million in the third quarter, up from $81.3 million when compared with the same period last year.

The company is one of the most important suppliers to the continent's electrical and telecommunications industries, its railway operators and the residential retail market. From the looks of it, SJ is no danger of losing its customers to a competitor. Since it deals with wood, each SJ product has a finite shelf life. This means every product has to be replaced, which translates into regular revenue for the company.

Utility poles, in particular, are approaching their expiration dates across large parts of North America. It wasn't a surprise that this segment contributed majorly in Q3 2019 with sales touching $211.5 million, up 5.4% from sales of $200.6 million last year. This vertical will grow next year, as well, as **Telus's** expansion plans for broadband come into effect, and telecommunication players upgrade to 5G.

Valuation, target price, and more

Nine analysts covering SJ have an average target of $49.39, This indicates a possible upside of almost 30% from current levels. While the dividend yield is just around 1.5%, SJ has been consistently paying dividends since 2003. The company paid out dividends twice a year from 2003 to 2011 before it started paying out quarterly dividends in 2012.

SJ stock is trading at a forward price-to-earnings multiple of 14.6. Compare this to its dividend yield of 1.5% and estimated five-year earnings growth of 19%, and you can see that the stock is somewhat undervalued.

As Fool contributor Debra Ray says, if you had invested in SJ in 1995, you would be sitting on a capital gain of 6,840%. The stock markets have given another chance to pick SJ up on a reasonable valuation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SJ (Stella-Jones Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/06/30
Date Created
2019/11/21

Author
araghunath