



## TFSA and RRSP Investors: Retire Rich With This Undervalued Stock

### Description

**Stella Jones** ([TSX:SJ](#)) manufacturers and [sells pressure-treated wood products](#) in North America. It offers railway ties and timbers for railroad operators and utility poles for electrical utilities. The company was incorporated in 1992 and is headquartered in Saint-Laurent, Quebec.

The company has a price-to-earnings ratio of 17.02, a price-to-book ratio of 1.98, and market capitalization of \$2.62 billion. Debt is very sparingly used at Stella-Jones, as evidenced by a debt-to-equity ratio of just 0.51. The company has excellent performance metrics with an operating margin of 10.8% and a return on equity of 12.18%.

The company has benefited from a [strong North American economy](#), and demand has been solid for Stella-Jones's pressure-treated wood railway ties, utility poles, and residential lumber. Total sales in 2018 surpassed \$2 billion for the first time in the company's history, reaching \$2.1 billion, and rose by a 10.1%, primarily driven by pricing.

Railway tie sales grew modestly, as the company progressively passed on price increases to customers. Utility pole sales increased over 10%, driven by both strong demand and price increases, and residential lumber sales increased by 30%, driven primarily by pricing.

However, despite higher sales prices, the company's increasing exposure to lumber costs has put downward pressure on margins as a percentage of sales, as price increases are passed through to customers. Lumber prices hit an all-time high in May 2018, followed by a sharp drop.

Management are excellent capital allocators. The company deployed cash flow primarily for acquisitions and capital expenditures and provided a return to shareholders in the form of dividends and share buybacks. Stella-Jones completed two acquisitions totaling \$54.5 million to expand the company's network.

The company acquired Prairie Forest Products in Manitoba, which manufactures treated wood utility poles and treated residential lumber, and Wood Preservers Incorporated in Virginia, a producer of marine and foundation pilings and treated utility poles. With these two additions, the company now operates 39 wood-treating plants and 12 pole-peeling facilities.

Over the past year, Stella-Jones has also invested \$51.6 million to increase the capacity and efficiency of the company's network. Capital deployed in Stella-Jones's facilities in the United States has already started to bear fruit in the form of improved efficiencies.

The company also increased the dividend for a 14th consecutive year to \$0.48 per share, returning \$33.3 million to shareholders, and repurchased common shares for approximately \$4 million.

As a manufacturer of basic components of North American industrial infrastructure, Stella-Jones succeeds in sync with the success of the continental economy. In 2020, it appears that there is ongoing robust demand for Stella-Jones's core products. Based on current market expectations and lumber prices, the company expects to generate higher year-over-year sales and improved margins.

The company has also been very successful in diversifying the product mix. Residential lumber has climbed from 10% of the overall product mix in 2014 to 22% of total sales in 2018, gaining momentum through a dedicated market focus. The company regards residential lumber as an essential component of the core product mix.

Stella-Jones's solid financial position will allow the company to quickly expand the company's presence in core markets. This company is very attractively valued.

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