Aspiring Millionaires: This 1 Stock Could Gain 162%!

Description

Domtar (TSX:UFS)(NYSE:UFS) makes and sells a variety of fibre-based products in the pulp and paper, and personal care segments. The pulp and paper line of business generates most of the company's revenues and includes packaging paper, communication, and specialty products. The personal care line of business sells hygiene products.

The company reports a market capitalization of $2.90 billion with a 52-week low of $42.23 and a 52-week high of $70.88.

Intrinsic price

Based on my calculations, using a discounted cash flow valuation model, I determined that Domtar has an intrinsic value of $134.76 per share. Assuming less-than-average industry growth, the intrinsic value would be $124.63 per share, and higher-than-average industry growth would result in an intrinsic value of $147.03 per share.

At the current share price of $50.70, I believe Domtar is significantly undervalued. Investors looking to add a pulp and paper company to their TFSA or RRSP should consider buying shares of Domtar.

Domtar has an enterprise value of $8.6 billion, which represents the theoretical price a buyer would pay for all of Domtar's outstanding shares plus its debt. One of the things to note about Domtar is its leverage, with debt at 22.5% of total capital versus equity at 77.5% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reported a strong balance sheet with US$1.1 billion in retained earnings, up from US$1 billion at December 31, 2018. This is very good news for investors as its suggests the company's surpluses in the past have been reinvested in the company to fuel growth.

The company reports cash and equivalents of US$98 million with short-term debt obligations of US$28 million, which means the company has more than enough money to cover its current debt liabilities. This indicates fiscal responsibility on the part of management.

Overall revenues are down year over year to US$3.976 billion from US$4.065 billion in 2018 (-2.2%). Despite this, the company achieved operating income of US$178 million during this period for net earnings of US$118 million.

From a cash flow perspective, the company made use of its normal course issuer bid (NCIB) and repurchased US$139 million of outstanding shares for cancellation. This is a strategy often used by management to indicate to investors it believes the current share price is undervalued.

Domtar is a dividend-paying entity with a current dividend yield of 4.73%, which is achieved through quarterly dividends of US$0.455.

The company continues to invest in its growth as indicated by additions of PP&E of US$157 million, up from US$111 million in 2018.

Foolish takeaway

Investors looking to buy shares of a pulp and paper company should consider buying shares of Domtar. The company reports positive retained earnings, an adequate cash balance, and continued profitability. This is offset slightly by decreasing revenues which may suggest market saturation. That said, if Domtar focuses on operational efficiencies, it will undoubtedly give the company an edge.

The company also repurchased US$139 million of its outstanding shares for cancellation during this period which is a strong signal that management believes its current share price is undervalued. With an intrinsic value of $134.76 compared to its share price at writing of $50.70, I believe Domtar's shares will appreciate about 160% in the future.

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1. Investing

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