



Forget Buying Toilet Paper – Buy This Toilet Paper Stock Instead

Description

Many folks are preparing for the worst from the coronavirus by loading up on non-perishable supplies like canned goods, hand sanitizer, and, perhaps most importantly, toilet paper.

On the one hand, this is a logical course of action. If you end up quarantined at home for two weeks, you'll definitely need supplies. It makes sense to have a little extra kicking around. But as people often do, they have taken a good idea and gone too far with it.

Grocery stores are now reporting massive toilet paper shortages, with many putting limits on the number of packages any one customer can buy. Customers are buying whole cartloads of the stuff, enough to last for months. If that doesn't make any sense to you, you're not alone.

Rather than fight the trend, perhaps investors should take a closer look at investing in toilet paper. Luckily for Canadian investors, there's an easy way to do it. Let's take a closer look.

Canada's top toilet paper company

KP Tissue ([TSX:KPT](#)) is a bit of a complicated investment. It owns an equity investment in Kruger Products L.P., which is the leading toilet paper manufacturer in Canada. Kruger's products include *Purex* and *Cashmere* toilet paper, as well as *Scotties* tissues, *Sponge Towels* paper towels, and *White Swan* napkins. The company also manufactures these same products for use in public restrooms, as well as making various types of generic paper products.

These brands are solidly entrenched atop the Canadian market for each category. 44% of all branded tissue sold in Canada comes from one of KP's brands, with that number still a respectable 30% when we include generic brands. KP also sits atop the facial tissue and paper towel markets, too.

One of the interesting things about this business has been how quickly everything can change. 2018 was a poor year for the company as high costs hit margins hard. It also had to deal with increased competition in the Canadian market, and Kruger was also spending aggressively to build a new plant in the United States. It all worked out without the company having to [slash its dividend](#), but it was dicey

for a little while.

Now the company is focused on expanding in the ultra-premium part of the market, as consumer trends show people are willing to pay a little more for softer toilet paper. It's building a new facility in Quebec to help it better serve this segment.

And finally, I'd be amiss if I didn't mention KP's [succulent dividend](#) yield. It's a major reason why many own the stock. The current payout is 6.6%, and the sustainability of the dividend is much more secure than it was a year ago. Especially when we consider the boost the company is getting from people stocking up.

Is KP Tissue a good investment today?

Here's where things get a little more tricky.

On the surface, it would sure appear that KP Tissue would be a buy today. People are buying toilet paper in fear it won't be there tomorrow. That has to be good for business.

But here's what I'm hearing from various contacts in grocery stores. KP simply can't keep up. Sure, the various chains have a certain amount of toilet paper at their warehouses, but they don't keep huge amounts of it around because it takes up too much space. They're dependent on the suppliers to keep the supply flowing, and these companies just can't keep up.

Without the ability to ramp up production to take advantage of this demand spike, I suspect KP will report just one good quarter and that'll be it.

Additionally, toilet paper doesn't go bad. All the people who are stocking up today won't be buying any time soon. This will likely translate into weaker results a quarter or two down the road.

The bottom line

I don't want to discount an investment in KP Tissue. The company has many things going for it, including a leadership position atop various paper markets, good brands customers recognize, and a fantastic dividend. It'll likely be a good long-term investment.

But ultimately, I'd say the current rush to load up on toilet paper is already priced into this stock.

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