



You Won't Believe What's Happening With Canada's Top Toilet Paper Stock

Description

As we enter yet another week of COVID-19 lockdown, one thing that continually amazes me is the toilet paper situation.

Despite the industry assuring worried consumers that plants are running at full capacity, there's still a massive shortage of toilet paper out there. My local grocery store tells me they're only getting between 5-10% of what they order, and they're one of the lucky ones. Another store just down the road isn't getting any, as stock is being reserved for larger centres.

I'm sure glad I stocked up in January when I stumbled upon a good deal.

This might be the greatest bull market in toilet paper history. People just can't get enough of the stuff. So, you'd expect the underlying stocks to go much higher. But **KP Tissue** ([TSX:KPT](#)), which owns 15% of Kruger Products, Canada's largest toilet paper, paper towel, and tissue maker, has struggled with the rest of the market. Shares are down approximately 15% over the last month.

What's going on? And is this a [buying opportunity](#)? Let's take a closer look.

Why is this toilet paper stock down?

I can understand why some investors might be scratching their heads right now. If toilet paper demand is good, then shouldn't that be good news for KP Tissue?

There's no doubt sales have increased over the short term. But there are a couple of reasons why the impact isn't as great as you might think.

Firstly, the company's plants were already operating at close to capacity before the big demand surge hit. When you're spending millions on a factory and extra for specialized automated equipment, you want to be assured a steady profit. These plants are busy most of the time and simply can't increase production that much.

There are also concerns this isn't really an increase in demand at all. Folks are stockpiling toilet paper, but they're not using more of it. Heck, many people already stockpiled toilet paper before. As long as you have a place to store it, loading up when the store has a good deal is a no-brainer decision.

In short, toilet paper sales are strong today. But in a few months — or potentially much sooner — people will stop buying and start using the supplies they've stockpiled.

There is potential that today's pandemic creates a generation of toilet paper hoarders who will always make sure to have a few months' worth of supply on hand, but that's unlikely. I strongly suspect we'll return to normal consumption very quickly.

How about KP Tissue shares?

Kruger Products had a solid year last year. Revenue crept up nearly 6% once accounting for divested assets in Mexico. Adjusted EBITDA was just over \$143 million, a 22.6% increase compared to the year before. The company was helped by a big decrease in pulp prices.

The company did post a loss, but that was because of one-time non-cash accounting charges. Cash flow was much healthier, and the company does have a significant cash cushion. A weak Canadian dollar will also help temporarily boost results from the U.S. division, which represents a big chunk of revenue.

Remember, KP Tissue owns some of Canada's top toilet paper, paper towel, and tissue brands. The company has the top market share in both tissue and toilet paper, and is a solid second in paper towel. These are solid brands Canadian consumers recognize. And the U.S. part of the company has lucrative contracts with various retailers to produce generic products.

All of this bodes well for KP's [succulent dividend](#), a payout that currently sits at 7.2%. There were rumblings the dividend could be cut last year. Those doubts have disappeared. You can count on this yield.

The bottom line

KP Tissue is never going to be a stock that posts huge capital gains. It's a steady income producer, not a big growth name.

But shares are looking pretty interesting here. Short-term results should be great, and the company pays a sustainable dividend. The 7.2% yield looks pretty good in a zero interest rate environment, too.

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