



## Bad News Continues for This Defensive TSX Stock

### Description

The effects of the coronavirus lockdown will start showing in the earnings for the first quarter of 2020. Most companies in the non-essential space have cut down production or suspended operations. During times like these, it is natural to look at market leaders. However, it looks like COVID-19 has not spared even industry giants. Sometimes, everyone has to take a punch.

### Norbord is a leading player in the OSD segment

**Norbord Inc** (TSX:NBD)(NYSE:OSB) is a [leading global manufacturer](#) of wood-based panels and the world's largest producer of oriented strand board (OSB). Norbord's business is closely linked to the U.S. housing sector. The data coming out from there is not great.

The Commerce Department said that U.S. home-construction activity collapsed in March, with housing starts falling to 1.2 million units, down from 1.56 million units in February, a drop of 22.3%. This is the worst monthly decline for housing since March 1984. Single-family homes fell 17.5%, while apartments and condo fell 32.1% from February. It is likely that the situation will not improve in April either.

In response, Norbord has adjusted its operating configuration by reducing shifts and running a number of its North American mills on alternating schedules. This adjusted operating configuration will initially result in a 25% reduction to Norbord's currently operating North American mill capacity.

"These are extraordinary times and difficult decisions, but they reflect the uncertainties facing businesses around the globe," said Norbord President and CEO Peter Wijnbergen.

Norbord's European business is prepared to take similar action and will adjust mill operating schedules as needed to match production with demand. The company does not intend to provide further operational updates unless there is a significant change in this curtailment strategy.

### Norbord is lower capital expenditure

In addition, Norbord is deferring non-critical capital projects and further reducing its 2020 capital expenditures budget by 25%, from US\$100 million to US\$75 million, to preserve cash and balance sheet flexibility.

This continues a spate of bad numbers for Norbord. In 2019, the company reported an EBITDA of \$138 million compared to \$724 million in 2018 on significantly lower realized North American OSB prices and shipment volumes, as well as lower European panel prices.

“2019 was a challenging year for Norbord,” [said Peter Wijnbergen](#). “Our financial results were disappointing relative to our record performance in 2018, as the slowdown in U.S. housing starts through most of 2019 decreased North American OSB demand and a slowing of German industrial production put downward pressure on European panel prices.” From the looks of it, 2020 doesn’t seem to be doing any better. It is in fact worse.

When the markets open up and home construction activity picks up, it’ll be Norbord that’ll benefit the most because of its ability to hold up during the crisis. It is this development that analysts are gunning for — and why they have given Norbord a price target of \$23.37, an upside of over 35% from its current prices.

But a lot will have to go right for Norbord to achieve this target. Right now investors can look to benefit from the stock’s high dividend yield of 7.3%.

Norbord is declaring its first-quarter results for 2020 in the first week of May. That’ll give us a lot more clarity on the future of this stock.

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## Date

2025/08/27

## Date Created

2020/04/23

## Author

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