



Stop Hoarding Toilet Paper: Buy These 2 Toilet Paper Stocks Instead

Description

The [coronavirus pandemic](#) has caused toilet paper to seem like something of a scarce resource these days. As panic-buyers continue sweeping the shelves of bare paper necessities at the local grocery store, the ridiculously boring business of toilet paper has suddenly become quite compelling.

But it's not this sudden near-term surge in demand for tissues and toilet paper that have you looking to Canada's top toilet paper stocks, though. Rather, it's the deep value to be had and the relative stability of incoming cash flows.

Value in toilet paper stocks

While the next few quarters of sales growth will be a nice boost for firms like **Cascades** ([TSX:CAS](#)) and **KP Tissue** ([TSX:KPT](#)), investors shouldn't expect the pandemic-induced demand pop to be sustainable. The demand for bare paper necessities like toilet paper tends to be reasonably consistent over prolonged periods.

After the initial wave of panic-buying, I suspect a proportional period of sluggish sales, as people look to use up their accumulated supplies.

It's not the hoarding of toilet paper that should cause investors to buy toilet paper stocks. Instead, it's the stability of incoming cash flows that will be able to support their dividends through the coming downturn.

As the coronavirus pandemic drags on, potentially for years, investors should view both Cascades and KP Tissue as sustainable income plays that won't be taking the axe to their dividends. The insidious coronavirus is negatively affecting the cash flows of many businesses, and that's put many dividend payments at risk of reduction.

Liquidity, financial flexibility, and cash flow predictability have become that much more critical these days. And that's a huge reason why view Canada's toilet paper stocks as glimmers of certainty in an otherwise gloomy, uncertain economic environment.

With a severe recession (or depression) on the horizon, dividend cuts could become as normalized as they were for many firms during the Financial Crisis.

Amid such a bleak environment, investors should have a strong preference for defensive companies that can continue to cover their dividend commitments to avoid the chance of bombshell dividend reduction announcements that could go alongside a steep sell-off in shares, as unforgiving income-oriented investors stampede for the exits.

While the demand for bare paper necessities is expected to remain stable over time, input costs are not. Pulp price fluctuations have caused shares of toilet paper plays to fluctuate wildly over the years. Fortunately, the managers at KP Tissue see input prices stabilizing, and that would make paper product firms more stable all around.

What about valuation?

At the time of writing, KPT stock trades at just 1.2 times book, with a 7.3%-yielding dividend. With a 0.7 quick ratio, KP Tissue isn't the most liquid firm in the world. Still, the stable nature of cash flows will be able to support the lofty dividend commitment through the duration of this pandemic, especially as pulp prices move in the firm's favour.

Cascades, which makes good use of primarily recycled fibres in its paper products, trades at an even bigger bargain at just 0.85 times book. Cascades stock sports a modest dividend yield of 2.4% and a similar quick ratio of 0.76.

With a sizeable \$2.12 billion in debt on the balance sheet (Cascades's market cap is just \$1.3 billion), though, the firm may look in danger of a dividend cut. Given the stable nature of the cash flows, though, I view the dividend as more than safe despite the hefty 1.42 debt-to-equity ratio.

Foolish takeaway

Both KP Tissue and Cascades are terrific defensive bets for those seeking stable dividends in an era where dividend reductions could become the norm. While neither firm is the most liquid in the world, both firms are expected to exhibit fairly stable cash flows through and after this horrific pandemic.

If you're looking for a more significant dividend, go with KP Tissue. And if you're looking for even deeper value and capital gains potential, Cascades is the horse to bet on.

Stay hungry. Stay Foolish.

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