1 TSX Stock That Can Beat the S&P 500 in 2020 and Beyond

Description

A couple of companies have recovered very quickly from the fall off a cliff moment in the latter part of the first quarter of 2020. Some stocks have shown remarkable resilience and have already made up the loss in stock prices.

West Fraser Timber (TSX:WFT) is one of the world's largest softwood lumber producers in the world and is a very good barometer for the housing market as it specializes in the remodeling and home construction space.

The company reported better than expected results for the second quarter of 2020. Sales clocked in $1.27 billion, up 7% from Q1. Adjusted EBITDA was $184 million as compared to $127 million in Q1. The lumber segment in particular was a surprise where adjusted EBITDA increased by $50 million to $156 million.

West Fraser ended Q2 with a cash flow of $439 million that included tax refunds received on account of 2019 results. The company also paid off $325 million in debt to reduce its net debt-to-capital to 28%. Its net debt is now $939 million. Cash liquidity improved by $506 million to $800 million.

Why West Fraser will gain momentum…

Fellow Fool Amy Legate-Wolfe wrote in April that both **Canfor** and West Fraser Timber were poised to jump dramatically when the housing recovery starts in the next year or so. She hit the nail on the head. Both stocks have reported good Q2 results on the back of a very strong repair and remodel market in the United States coupled with a resilient housing construction market.

In fact, West Fraser had slowed down lumber production in the first half of April. The company says that for the first 4-6 weeks, beginning in early-mid March, there was minimal to almost no lumber sales before production had to ramp up to meet the surprisingly strong demand. By the end of the second quarter, manufacturing operations resumed at all West Fraser facilities.

The company says, "…the Wood Products business was in relatively good shape with what appeared to be rising housing starts, solid U.S. consumer strength, and reasonably lean seasonal inventories throughout the supply chain and, of course, low mortgage rates." In the provinces of Ontario and Quebec, demand and pricing both rebounded after construction restrictions were lifted.

Pulp plays spoilsport for the TSX stock

The pulp segment was a downer for most lumber companies and it was no different for West Fraser. Its pulp & paper segment had negative operative earnings of $1 million and adjusted EBITDA of $10 million. Pulp inventories across the board were very high, and with the pandemic resulting in a massive decrease in demand for printing and writing, companies were stuck with inventory.

West Fraser said that the upcoming quarters are going to be difficult for pulp, and growth should only be looked at from a long-term perspective in this segment.

The company is currently trading at $63.50. It has already crossed the $61 levels it was trading at in February before the pandemic broke out and the world went into lockdown. It once traded at around $90 per share in 2018 and there is little reason to believe it won't once again reach that level should the housing market continue to recover.

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