



This TSX Stock Is Up 55% in Four Months — and Could Move Higher in 2020

Description

It's always a win when a stock that you have picked lives up to its potential. It means investors who have bought the stock on your recommendation have made a tidy sum and that's good news because you can now resume your hunt for the next big thing.

On April 1, [I had written about Stella Jones \(TSX:SJ\)](#), a company that operates in the pressure-treated wood product space. I had recommended a strong buy on the stock and said that it would beat the COVID-19 bear market handsomely. The stock was trading at \$30. Today, it is up by over 55% to \$46.6 on the back of a stellar second quarter in 2020.

EBITDA crossed the \$100 million mark in a quarter for the first time, increasing to a record \$120 million, up by 28% from the same period in 2019. Net income was up at \$69 million and cash flow from operations was \$146 million.

Three-pronged attack of the TSX stock

Stella Jones operates in the housing and construction, utilities and railroad space, and all three sectors showed growth, with the housing market emerging as the Jack-in-the-Box.

Residential lumber sales increased by 32% to \$257 million from \$195 million in 2019. This massive uptick came as an outcome of "home improvement activity in the context of the COVID-19 pandemic." Residential lumber accounted for 32% of Stella Jones's sales for the quarter.

Raw material cost increases saw utility poles sales by 9% to \$230 million, up from \$211 million in 2019. This segment accounted for 30% of Q2 sales.

Railway tie sales were \$225 million, up 13% from \$199 million in 2019. The company said sales were up "mainly due to the acceleration of the 2020 maintenance program for certain Class 1 customers and solid demand from non-Class 1 customers, which was supported by a healthy level of untreated ties inventory." Railroads accounted for 30% of Q2 sales.

In the April 1 article, I had written that the company expected residential lumber sales to go up. However, the housing market continues to drive top-line growth as well, surprising investors.

Stella Jones used this record quarter and cash flows to reduce debt and its long-term debt stood at \$636 million at the end of Q2 while its net debt to trailing EBITDA fell to 1.9.

What next for investors?

Analysts have given the company a target price of \$47.5 and the stock is already trading at \$46.6. However, there is a good chance that the company to beat these estimates and move higher.

As air travel restrictions ease, the number of immigrants coming to Canada will go up from close to zero since March. According to this news article, over 80% of Canada's population growth has occurred due to immigrants.

All of these new families will require homes to live in, and my bet is that Stella Jones will supply a lot of lumber for these houses.

CATEGORY

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