



A Booming Housing Market Could Cause This Quality TSX Stock to Break Out in 2021

Description

If a company wasn't a tech stock or an essential service provider like a utility player or a grocer, chances are it has been ignored by the larger markets in 2020. If one looks hard enough, it is possible to find hidden gems in sectors that aren't in the limelight. The wood and the lumber industry is one such sector, and **Stella-Jones** ([TSX:SJ](#)) is one such hidden gem.

Stella-Jones stock is in recovery mode

2020 was not expected to be a good year for housing. However, a massive shift to work-from-home practices and a government that ensured its citizens got financial relief through measures like CERB (Canada Emergency Response Benefit) saw a housing market boom in the country.

By most accounts, prices are going to rise across Canada, as the work-from-home trend becomes a regular practice, and low interest rates are going to make it easier for people to buy homes. According to a market research report published in the *Financial Post*, many Canadians are bullish on real estate prices in the first half of 2020. Real estate experts in Toronto expect the condo market to [take off](#) in 2021. This is also true for the U.S. housing market.

If the outlook for real estate is good, then it follows that the outlook for lumber prices will follow suit. According to one report by Woodbusiness.ca, "Lumber manufacturers in Canada and the U.S. are experiencing such strong demand that sawmill order files are pushing out into the start of next year."

It further states, "Forest industry veterans and home builders with 40 years-experience alike have never seen this situation toward year-end. All agree, however, that home sales, house prices, and home building will not reverse direction any time soon. Madison's expects a hot US housing market to last at least to the end of 2021."

Solid Q3 results

Stella-Jones is in [a prime position](#) to take advantage of the boom in real estate. The company's Q3 results bear testimony to this fact. Its sales grew 18% year over year to \$742 million in Q3, up from \$631 million in the prior-year period. Comparatively, EBITDA rose by 38% to a quarterly record of \$132 million. The rise in lumber prices driven by strong demand from residential real estate played a huge role in Stella-Jones's quarter.

The company ended the quarter with a net debt-to-EBITDA ratio of 1.4 and over \$300 million in liquidity. Stella-Jones operates in four major verticals in the pressure-treated wood products space. It helps that two verticals, utility poles and railway ties, are recession-proof. Pandemic or no, both of these products will always be in demand.

Utility poles that consist of 34% of Q3 sales rose by 16% to \$250 million. Railway ties that consist of 25% of Q3 sales decreased 2% to \$189 million. Residential lumber that consists of 30% of Q3 sales went up 39% to \$220 million. Industrial products that consist of 5% of Q3 sales went down 6% to \$34 million.

Apart from these, Stella-Jones has another category, logs and lumber, where sales went up 75% to \$49 million thanks to an increase in lumber prices.

Stella-Jones is a stock that has weathered the worst 2020 had to throw at it and has come out stronger and more profitable this year than others.

CATEGORY

1. Coronavirus
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