1 Boring Stock With Exciting Upside Potential

Description

Nowadays, investors often seek the “next big thing” and end up investing in shares of companies that fail to generate decent earnings. A strong tilt toward growth stocks has resulted in a situation where a lot of investors are learning some very painful and expensive lessons.

However, otherwise “boring,” defensive stocks may be better suited as core portfolio holdings for cautious investors. Indeed, those with lower risk tolerances would do well to simplify their portfolios today.

Accordingly, stocks like **Stella-Jones** (TSX:SJ) offer intriguing upside for such investors. Here’s why this company is on my watch list right now.

Stella-Jones has a prudent business model

This Montreal-based company is engaged in the production and marketing of pressure-treated products made of wood. It provides railway ties and timber to the railroad operators in North America. Moreover, it supplies utility poles to the telecommunication and electrical utilities companies in the continent. Besides these, this company also engages in the production and distribution of pressure-treated residential lumber, which is meant for outdoor purposes.

These products aren’t very attractive. They’re commodity-based and tend to be low margin in nature. Accordingly, it’s understandable why this stock doesn’t make many investors’ watch lists.

However, Stella-Jones has proven itself to be an extremely stable stock during recent volatile times. Taking a look at the company’s five-year stock chart displays this well.

Stella-Jones remains well positioned in U.S. and Canadian markets in terms of wood supply. The efficient procurement team of this company has been instrumental in building strong relationships with the sawmills. Indeed, this has ensured an adequate supply of raw materials for the company at competitive prices.

Given where lumber prices are today, that's extremely beneficial for shareholders.

First-quarter earnings have been stellar

Stella-Jones has certainly gotten off to a strong start this year. The company's recent earnings surpassed analyst expectations by a wide margin.

This company recorded EBITDA of $99 million, which represents 57% year-over-year growth. Additionally, Stella-Jones's management team has increased the company's EBITDA guidance for the entire year from $385-410 million to $450-480 million, which has trumped the consensus estimate of $391 million. This is bullish for the stock as far as the company's 2021 outlook is concerned.

Stella-Jones's management team has indicated its intentions to remain active in the M&A sphere. Via ongoing consolidation in the railroad space, Stella-Jones could further consolidate its competition. Such a move could improve margins over time and continue to grow the company's already strong market share in its core business.

Analysts believe that Stella-Jones's current stock price does not reflect the resiliency it showed during the pandemic-induced crisis. Furthermore, it appears that the company's strong industry fundamentals and stellar balance sheet haven't been factored into the stock as much as many expected.

Accordingly, I think this "boring" company provides rather exciting long-term potential returns alongside impressive defensive characteristics. I think investors would be remiss to ignore this excellent opportunity today.

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2025/07/17
Date Created
2021/05/12
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