



Canada's Housing Boom Makes This TSX Stock a Buy Today

Description

When markets across the world are gaining momentum, a majority of the stocks will make you money. However, smart investors know they shouldn't be scrambling for cover when the tide ebbs. And as markets reach frothy levels, it makes sense to look at stocks that are not your traditional "growth" stocks but that have a lot of upside potential, nevertheless.

Stella Jones ([TSX:SJ](#)) is one such company. It is a producer of industrial pressure-treated wood products that mainly operates in three segments, of which, two are economy agnostic. The company's main verticals are utility poles, railway ties, and residential lumber. Through recessions or booms, utility poles, and railway ties have to be serviced, maintained, and replaced regularly.

Lumber pricing and homes

Lumber prices began to soar when the COVID-19 pandemic began, with supply not being able to match up to the demand from builders and renovators. In March, the price per thousand board feet managed to reach an all-time high of \$1,040.

Data for April shows that Canadian home sales declined by 12.5% on a month-over-month basis, as lockdown restrictions were re-imposed. Compared to April 2020, sales increased 256%.

[According](#) to Paul Jannke, the principal of Forest Economic Advisors, since supply will struggle to keep up with the demand, prices will continue to remain historically elevated for the rest of the year, although they might drop from their current levels too, thanks to the volatile nature of its pricing. Jannke believes that data could show that prices experienced a drop in April and May, albeit not significantly, and might just bounce back by Q3 of 2021.

Lumber experts believe that by the year-end, the price of softwood lumber and panel won't drop significantly. The current momentum of the ongoing demand for new buildings and remodeling will result in large volumes of lumber sales until the year-end, if not longer.

What's next for TSX investors?

Meanwhile, Stella Jones's other businesses continue as usual. Sales came in at \$623 million for the quarter ended March 31 — an increase of 23% from \$508 million in the corresponding period in 2020. Residential lumber made up 27% of the company's revenue.

EBITDA (earnings before interest, tax, depreciation, and amortization) rose 57% to \$99 million from \$63 million in 2020. Net income was \$56 million — double the net income of \$28 million in the corresponding quarter in 2020.

Stella-Jones's EBITDA guidance for 2021 is \$450-\$480 million in 2021, up from its earlier estimate of \$385-\$410 million. Residential lumber sales are now forecast to increase in the range of 45-65% compared to 2020. Residential lumber sales in 2020 were \$665 million in 2020, up 41% from sales of \$471 million in 2019 on the back of rising lumber prices and strong home improvement demand.

Utility poles sales are expected to go up in the mid- to high-single-digit range compared to 2020, while railway ties and industrial product sales are projected to be relatively comparable to those generated in 2020.

The company's forward dividend yield is 1.52%, and Stella Jones stock is currently trading at \$47.43. Analysts have given it a target of \$60, which is upside of around 25%. This stock is [an easy buy](#), in my book.

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Date

2025/09/26

Date Created

2021/05/29

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