



2 TSX Stocks to Rally on High Inflation Through 2021

Description

High inflation has made basic materials like [lumber](#), gold, and silver more costly. Here are two **TSX** stocks that could rally higher with this inflationary scenario through 2021.

Stella-Jones

Stella-Jones ([TSX:SJ](#)) is a leading producer and marketer of pressure-treated wood products. It supplies electrical utilities and telecom companies with utility poles and railroad operators with railway ties and timbers in North America.

The company also manufactures and distributes residential lumber and accessories to retailers for outdoor applications as well as industrial products for construction and marine applications.

The lumber and wood production company reported strong first-quarter results on May 3 with year-over-year (YOY) sales growth of 23% to \$623 million, EBITDA growth of 57% to \$99 million, and net income and earnings per share doubling, respectively, to \$56 million and \$0.85. Notably, its EBITDA margin expanded from 12.4% to 15.9% versus Q1 2020.

Its inventories increased 8% to \$1.17 billion at the end of Q1 2021 versus Q1 2020. Management explained the increase as “the seasonal build-up ... ahead of peak demand in the second and third quarters as well as the higher cost of residential lumber inventory given the rise in the market price of lumber...”

This suggests that the stock could continue to deliver good results over the next six months or so, especially after the recent pullback. Specifically, the growth stock declined about 14% from its recent high of \$54.

The 50-day simple moving average, which is at about \$45.28 at writing, should act as the first line of support. However, a bounce from the lower 200-day simple moving average at about \$42.21 per share would be even stronger. So, the \$42-46 level could be a good range to accumulate shares.

In any case, analysts think the stock can appreciate close to 30% from current levels. Moreover, Stella-Jones is a Canadian Dividend Aristocrat with 16 consecutive years of dividend increases. Its three-, five-, and 10-year dividend-growth rates are 10.9%, 13.4%, and 20.2%, respectively.

When it reported its impressive Q1 results last month, it increased its dividend by 20%, which signified the start of a strong year. Its 2021 payout ratio is estimated to be about 18%.

Wheaton Precious Metals

[Gold](#) and silver are a store of value and hedge against inflation. **Wheaton Precious Metals (TSX:WPM)** ([NYSE:WPM](#)) is a better investment than gold and silver. It is a precious metals streaming company with a high-quality portfolio of long-life, low-cost assets. Approximately 90% of its production comes from mines operating in the lowest half of their cost curve.

Its business model offers investors commodity price leverage and exploration upside but with lower risk than traditional mining companies. The cost per ounce is predetermined contractually and paid upon delivery. Therefore, the streamer has predictable costs and is protected from inflationary cost pressures.

Wheaton Precious Metals delivers amongst the highest cash operating margins in the mining industry, allowing it to pay a dividend while growing through accretive acquisitions. Consequently, the precious metals stock has consistently outperformed gold and silver as well as other mining investments.

As gold and silver prices have gone up since 2019, WPM was able to increase its dividend by 29% YOY on a trailing 12-month basis. Currently, it yields almost 1.2%. Moreover, analysts think an upside of about 26% is possible over the next 12 months.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:SJ (Stella-Jones Inc.)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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