



Lumber Crashes! Buy 3 Stocks on the Dip

Description

One of the few commodities that experienced sharp and unprecedented highs during the pandemic is lumber. The prices started soaring in the early days of the pandemic and reached their peak in mid-May 2021 when the price climbed as high as \$1,600 per 1,000-foot piece of lumber. But the prices have taken a sharp dip and are on a steady decline.

It's directly affecting the earnings and the stock of several lumber companies in the country, many of which saw a sharp rise just a few months ago. And if you want to buy the dip, now's your chance.

A Vancouver-based company

Interfor ([TSX:IFP](#)) has a market capitalization of \$1.54 billion and is considered among one of the largest lumber producers in the world. The company has an annual capacity of producing 3.9 billion board feet of lumber and is one of the few pure-play lumber producers, that is, it doesn't produce other products like pulp.

Its share price rose by almost 550% from its lowest valuation during the crash to its peak in May 2021. And it has already started to come down at a powerful pace (a 32% decline since May). This price discount also comes with a great valuation discount since the company is currently quite aggressively undervalued.

The company issued a generous special dividend in 2021, but if the earnings see a decline as sharp as its price, the prospects of more such dividends are dark.

A logging company

Stella-Jones ([TSX:SJ](#)) focuses on pressure-treated wood products like utility poles, railway ties, residential lumber and boasts an impressive presence in the U.S. It has 39 treating facilities across both Canada and the U.S. and one coal-tar distillery in the U.S. Thanks to its slightly different product line, both its rise and fall are relatively paced.

[The stock](#) grew just 106% between the crash valuation and peak and has fallen about 18% since its April peak. The company is fairly priced, and it's also a 16-year-old Dividend Aristocrat, although the yield is not very attractive at 1.6%. The stock is going down and could slip much more. You can either buy it now or wait for it to hit rock bottom before adding it to your portfolio.

A generous dividend stock

If you are looking for a dividend star that is offering a mouthwatering yield thanks to its recent dip, **Acadian Timber** ([TSX:ADN](#)) is [the stock](#) to consider. The stock just fell about 12% since its 2021 peak and it's already recovering. And it's offering a powerful 6.2% yield at a very stable payout ratio of 60%. The price is quite attractive as well.

The price is just right as well. The company is currently trading at a price-to-earnings of 9.4 and a price-to-book of just one.

Acadian has a diverse product portfolio, but about 61% of its sales are composed of solid wood. The company has timberland in both Canada and the U.S., and the total area under management is 2.4 million acres.

Foolish takeaway

A lumber [bear market](#) is already maturing, and it's difficult to say when this particular commodity will turn things around. Some experts believe that even when the prices revert from the slump, they might not stick to the pre-pandemic levels and could hover around a new price point.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:SJ (Stella-Jones Inc.)

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