

Five for Friday: Dirt Cheap Materials Stocks

This week we limit our population of potential stocks to those in the materials sector. The sector includes a diverse group of companies that mine, harvest, and produce raw materials used by many other industries.

Within the materials sector, we are looking for dirt cheap valuations alongside a history of solid earnings growth and strong earnings forecasts for the next five years. We limit the scan to companies with a market cap of at least \$2.5 billion.

The screen and data are courtesy of Finviz.

Screening Criteria

- Market Cap >\$2.5 bn
- 5yr EPS Growth Est. > 25%
- Prior 5yr EPS Growth >25%
- P/E and Forward P/E < 10
- PEG Ratio < 1
- P/S < 1
- Zacks Rank 1 or 2

Our screen returned five companies, as shown below. Given our criteria for high growth and low valuations, the stocks have extremely low PEG ratios. Two of the companies produce chemicals, one is in the lumber industry, and the remaining two are steel producers. The industries represented are very cyclical based on economic activity and, as such, may be subject to financial losses if the economy continues to deteriorate. However, these companies are priced at such low valuations they offer much less downside risk than the broader markets.

We caveat that last statement. Higher interest rates could make debt financing more difficult, thus raising viability concerns for some of the companies. Geopolitics and labor management problems can also pose risks in the future.

Ticker	P/E	F P/E	Forward EPS Grwth.	PEG	P/S	LT Debt/Eq. Ratio
WLK	4.30	5.80	32%	0.13	0.79	0.52
WFG	2.70	8.40	29%	0.09	0.73	0.06
MEOH	5.20	9.40	29%	0.18	0.54	1.38
STLD	3.50	7.80	28%	0.12	0.64	0.40
CLF	2.80	6.60	27%	0.10	0.39	0.69

Company Summaries (all descriptions courtesy Zacks)

Westlake (WLK)

Westlake is a diversified industrial company that manufactures and supplies essential products under one Westlake brand. Westlake products include food packaging, medical devices, soaps and detergents, car interiors, fashion, toys, shoes, furniture, electronics, siding, stone veneer, windows, outdoor living, roofing and pipe & fittings. Westlake Performance & Essential Materials businesses include polyethylene and vinyl chemicals production, which are vital to the manufacturing of polymers to protect food, medical and personal products and an extensive range of sectors and spaces, such as automotive interiors and exteriors, building materials, PVC pipes for agriculture, water systems and buildings, detergents, pharmaceuticals. Westlake Housing & Infrastructure Products produces finished goods and key materials in building products, pipe & fittings and custom compounds which are critical to the manufacturing of items including residential siding, architectural stone, roofing, windows and outdoor living.



West Fraser Timber Co. (WFG)

West Fraser Timber Company Ltd. is a diversified wood products company. It engages in producing lumber, LVL, MDF, plywood, pulp, newsprint, wood chips, other residuals and energy principally in western Canada and the southern United States. West Fraser Timber Company Ltd. is based in VANCOUVER, BC.



Methanex Corporation (MEOH)

Methanex Corporation is the world's largest supplier of methanol to North America, Asia-Pacific, Europe and Latin America. Around two-thirds of all methanol demand is used to produce traditional chemical derivatives including formaldehyde, acetic acid and a variety of other chemicals that form the basis of a large number of chemical derivatives for which demand is influenced by levels of global economic activity. The remaining one-third of methanol demand comes from energy related applications. Methanol is also used to produce methyl tertiary-butyl ether, a gasoline component, and an emerging application is for methanol demand into olefins. Methanex purchases methanol from others under contract and on the spot market to meet customer requirements. The company sells methanol through a global marketing and distribution system. Apart from the methanol made at its production sites, the company also purchases methanol manufactured by others under methanol offtake contracts and on the spot market.



Steel Dynamics, Inc. (STLD)

Steel Dynamics, Inc. is among the leading steel producers and metal recyclers in the United States. It is one of the most diversified steel companies in United States with a vast range of specialty products. The company makes and markets steel products, processes and sells recycled ferrous and nonferrous metals, and fabricates and sells steel joist and decking products in the United States and internationally. Steel Dynamics operates through three segments: Steel Operations, Metals Recycling Operations and Steel Fabrication Operations.



Cleveland-Cliffs, Inc. (CLF)

Cleveland-Cliffs Inc. is the largest producer of iron ore pellets in North America. It is also the biggest flat-rolled steel producer in the region. The company is a major producer of iron ore pellets and it mainly sells products to integrated steel companies through this division in the United States and Canada. Cleveland-Cliffs updated its segment structure following the ArcelorMittal USA buyout and now has one reportable segment, Steelmaking. The earlier Mining and Pelletizing division is now included within Steelmaking while other remaining operating segments including Tooling and Stamping are classified as Other Businesses. The company's Steelmaking operations makes flat-rolled carbon, stainless, electrical, plate, tinplate and long steel products. It provides carbon and stainless-steel tubing products, die design and tooling, as well as hot and cold-stamped components.



Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.