

Louisiana-Pacific (LPX)

\$23.70 (As of 03/09/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/08/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: C

Momentum: A

Summary

Shares of Louisiana-Pacific have outperformed the industry year to date. Despite reporting lower-than-expected fourth-quarter 2019 results, better-than-expected SmartSide Strand revenue growth and the long-term adjusted EBITDA projection are encouraging. Also, it announced a 7% increase in quarterly cash dividend and authorization of a new \$200-million share repurchase program. Notably, the company's earnings estimates for 2020 have moved north in the past 30 days, depicting analysts' optimism regarding its bottom-line growth. However, lower Oriented Strand Board ("OSB") prices and reduced commodity OSB shipments across all North America segments (down 29%) negatively impacted the quarterly results. Lower sales, and higher costs and expenses dented the adjusted earnings by more than 73% year over year during the quarter.

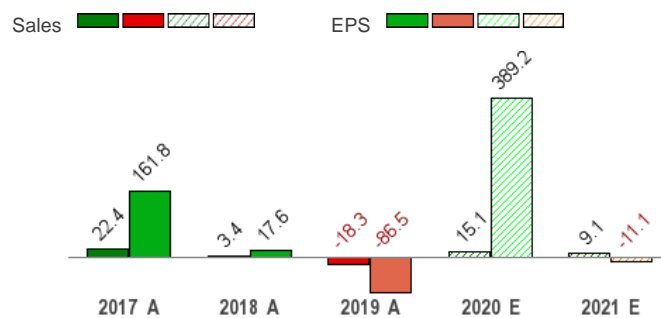
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.35 - \$21.82
20 Day Average Volume (sh)	1,595,297
Market Cap	\$2.7 B
YTD Price Change	-20.1%
Beta	1.42
Dividend / Div Yld	\$0.58 / 2.4%
Industry	Building Products - Wood
Zacks Industry Rank	Top 43% (108 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-50.0%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	3.4%
Expected Report Date	05/05/2020
Earnings ESP	-19.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,900 E
2020	613 E	683 E	715 E	647 E	2,659 E
2019	582 A	588 A	603 A	537 A	2,310 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.61 E
2020	\$0.28 E	\$0.71 E	\$0.80 E	\$0.49 E	\$1.81 E
2019	\$0.13 A	\$0.11 A	\$0.08 A	\$0.05 A	\$0.37 A

*Quarterly figures may not add up to annual.

P/E TTM	64.1
P/E F1	13.2
PEG F1	2.6
P/S TTM	1.2

The data in the charts and tables, except sales and EPS estimates, is as of 03/09/2020. The reports text and the analyst-provided sales and EPS estimates are as of 03/10/2020.

Overview

Louisiana-Pacific Corporation is a leading manufacturer of sustainable, quality engineered wood building materials, structural framing products as well as exterior siding for use in residential, industrial and light commercial construction. Currently, the company operates 20 moderns, strategically located facilities in the United States and Canada, two facilities in Chile and one facility in Brazil. It also operates facilities through a joint venture. The company's products are used primarily in new home construction, repair as well as remodeling and outdoor structures.

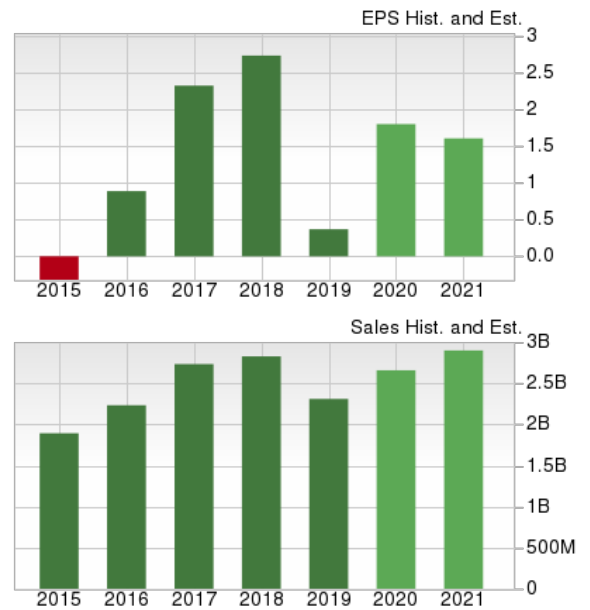
The company has four reportable segments — Siding (contributing 42% of 2019 net sales), North America Oriented Strand Board or OSB (34%), Engineered Wood Products or EWP (17%) and South America (7%). Notably, revenues from Other sources and Inter-segment sales accounted for 1% of its total net sales.

Siding segment consists of LP SmartSide trim and siding, LP CanExel prefinished siding, as well as LP Outdoor Building Solutions innovative products for premium outdoor buildings.

OSB segment manufactures and distributes OSB structural panel products including LP OSB, LP TechShield radiant barrier, LP TopNotch sub-flooring, LP Legac super tough, moisture-resistant sub-flooring and LP FlameBlock fire-rated sheathing.

EWP segment comprises LP SolidStart I-Joist (IJ), Laminated Veneer Lumber (LVL) and Laminated Strand Lumber (LSL) and other related products.

South America segment manufactures and distributes OSB and siding products in South America and certain export markets.



Reasons To Buy:

▲ **Business Transformation & Efficient Cost-Reduction Strategy:** Louisiana-Pacific is gradually transforming from a commodity producer to a more stable cash-generative business, by increasing revenues and EBITDA mix. The company remains focused on improving business by growing the Siding unit and simultaneously reducing cost. The company has been mainly focusing on three areas - increasing the efficiency of mills by improving productivity, run time and quality through OEE initiatives; applying best practices to its supply chain including procurement, logistics and working capital across \$1.1 billion of addressable spend; and optimizing infrastructure costs.

Focus on improving business by growing the Siding segment, and simultaneously reducing costs across all businesses, as well as enhancing its shareholders' return bode well

In a bid to reduce costs, Louisiana-Pacific lowered the cost structure of its facilities through Lean Six Sigma efforts, the sale or shutdown of underperforming mills and manufacturing facilities as well as investments in technology. The Lean Six Sigma efforts continue to produce excellent returns from cost-saving and efficiency projects. The company resorts to a strategy of curtailing production at selected facilities to meet customer demand and optimize portfolio as well as margins.

▲ **Enhancing Shareholders' Return:** Louisiana-Pacific has been consistently enhancing shareholders' return through share repurchases and dividends. In February 2019, the company announced a new \$600-million share repurchase authorization, with the first \$400 million to be purchased through an accelerated stock repurchase program. Again, during the fourth-quarter 2019 results discussion, it announced authorization of a \$200-million share repurchase program. It also announced a 7% hike in quarterly dividend to 14.5 cents per share.

The company has committed to return over time to its shareholders at least 50% of cash flow from operations in excess of capital expenditures in order to sustain core business, as well as grow Siding and value-added OSB. In 2019, the company completed \$600 million accelerated share repurchase and paid \$65 million as dividends.

▲ **Focus on Siding Business Bodes Well:** The company has been making efforts to increase penetration of Siding products in repair/remodel and roll out SmartSide products. The company remains committed to grow strand Siding revenues in 2020 and beyond. Notably, the Siding unit, which is no longer producing OSB, generated 2% higher revenues during 2019. In fact, SmartSide Strand revenues grew 10% during the year. The company expects EBITDA margin in the Siding segment to be at least 20% in the long term, backed by strength of the Siding segment. Also, it intends to continue investment in selling and marketing of said business in 2019 and beyond.

Notably, shares of Louisiana-Pacific have outperformed the industry so far this year. The company's earnings estimates for 2020 have moved north in the past 30 days, depicting analysts' optimism over its prospects.

▲ **Strategic Investments:** Louisiana-Pacific's business banks on acquisitions, business combinations and divestures of low-profitable businesses. On Oct 8, 2019, the company acquired the prefinishing assets at a Granite City, Ill., prefinish facility, which was owned by BlueLinx.

Again, on Jun 3, 2019, Louisiana-Pacific acquired a Green Bay, WI-based prefinished siding company, Prefinished Staining Product Incorporated ("PSPI"). These buyouts enabled the company to boost the Siding business and transform itself into a leading building solution provider. The acquisitions allowed it to utilize PSPI's existing facilities, capability and expertise to enter the market, and drive growth of the Siding business as well as LP SmartSide brand.

In addition to this, on Sep 30, 2018, the company invested in a joint venture with Resolute Forest Products. Louisiana-Pacific is an exclusive distributor of the I-joists produced and the venture will jointly operate I-Joist facilities in Quebec. Again, in May 2018, it made an investment of \$45 million in Entekra. Entekra's off-site framing solutions helped it boost market demand and productivity for builders, reduce waste and improve quality of the construction process.

The partnership combines Entekra's established engineering and automated framing proficiency with Louisiana-Pacific's market access to regional and national builders. Also, the partnership helps Louisiana-Pacific to leverage large-scale manufacturing capabilities and capital deployment necessary to scale the business.

Meanwhile, on Feb 27, 2020, it announced a deal with Maibec to divest LP's East River facility, located in Nova Scotia, Canada. Maibec will also take charge of the assets and brand rights of CanExel — the fiber-based siding product manufactured in the East River facility. Post the divestiture, LP's Siding business will focus exclusively on meeting higher customer demand for its strand-based siding products.

Reasons To Sell:

- ▼ **Higher Expenses:** Higher costs and expenses have been a concern for all wood industry players. Wood fiber is the primary raw material used by Louisiana-Pacific, while the primary source of wood fiber is timber. The cost of different varieties of wood fiber is subject to volatility owing to governmental, economic or industry conditions. The imposition of tariff on imported lumber raises concern.

Along with wood fiber, the company uses a significant quantity of various resins in the manufacturing processes. Resin product costs are influenced by changes in the prices or availability of raw materials used to produce resins, primarily petroleum products as well as demand for and availability of resin products.

Apart from wood fiber costs, increased marketing investments associated with accelerating repair and remodel channel penetration, along with new product introductions have been denting its performance over the last few quarters. Selling, general and administrative expenses were 10% up in 2019 due to increased investments in sales and marketing to drive siding growth.

- ▼ **Product Concentrated Around OSB Segment:** The company has a high degree of product concentration in OSB. OSB accounted for about 66%, 54%, 54% and 51% of its North American sales in 2019, 2018, 2017 and 2016 respectively. Louisiana-Pacific expects OSB sales to continue to account for a substantial portion of its revenues and profits in the future. Increased concentration around one segment makes the company susceptible to commodity pricing and price volatility.

Since 2018, pricing pressure under OSB segment has been impacting the overall operating results of the company. The headwind continued in 2019 as well. In 2019, its adjusted earnings declined more than 73% from the year-ago level due to lower OSB pricing across North American operations, and higher costs and expenses. In fact, the segment's adjusted EBITDA was just \$10 million compared with \$425 million reported a year ago. The decreases are primarily related to \$407 million of reduction in OSB prices and a 17% decrease in commodity shipments. The effect is expected to continue in near future as well. Particularly in the third quarter of 2019, average selling price for OSB (lowest in the past four years) was down 35% and volume declined 14% year over year.

Importantly, management has removed all commodity OSB production from its Siding mills and reduced production at the Peace Valley facility in British Columbia.

- ▼ **Dependence on Housing Market:** Demand for the company's products has a strong relationship to the level of new home construction activity in North America, which historically has been characterized by significant cyclical. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits can affect consumer confidence and spending levels, which in turn can hurt the economy and the housing market.

Although strong economy and labor market strength provide the basis for solid demand, interest/mortgage rates' influence on the homebuilding industry is undeniable and uncertain. Meanwhile, high mortgage rates dilute the demand for new homes as mortgage loans become expensive. This lower purchasing power of the buyers and hurts volumes, revenues and profits of homebuilders. In that case, the demand for Louisiana-Pacific's products will likely get affected.

Total housing starts in 2019 were up only 3% year over year, with single-family starts rising just 1%. The company believes that nearly 40% of SmartSide revenues are based on single-family housing. Given slower housing starts, the company expects SmartSide Strand revenue growth within 10-12% in 2020 as well.

Higher expenses associated with repair and remodel channel penetration and product introduction along with increased raw material costs mar prospects

Last Earnings Report

Louisiana-Pacific Q4 Earnings Lag, SmartSide Revenues Up

Louisiana-Pacific Corporation reported lower-than-expected results in fourth-quarter 2019. Also, the company's announcement of a 7% increase in quarterly cash dividend to 14.5 cents per share and authorization of a new \$200-million share repurchase program are expected to have added to the positives.

The company reported adjusted earnings of 5 cents per share, which lagged the Zacks Consensus Estimate of 10 cents by 50% and declined a whopping 73.4% from the year-ago period. The downside can be attributed to lower sales, and higher costs and expenses.

Net sales totaled \$537 million, missing the consensus estimate of \$552 million by 2.7% and declining from the year-ago figure of \$589 million by 8.8%. Lower Oriented Strand Board ("OSB") prices and reduced commodity OSB shipments across all North America segments (down 29%) negatively impacted its performance. However, these headwinds were partially offset by SmartSide Strand revenue growth of 11%.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	-2.72%
EPS Surprise	-50.00%
Quarterly EPS	0.05
Annual EPS (TTM)	0.37

Segmental Analysis

Siding: The segment's sales of \$230 million during the quarter were up 8% from the prior-year figure of \$213 million. Adjusted EBITDA also increased 23.5% from the prior-year quarter to \$42 million. The upside was backed by strong SmartSide Strand.

OSB: Sales in the segment declined 32.5% year over year to \$172 million. The company's adjusted EBITDA also deteriorated significantly to \$6 million from \$34 million reported a year ago. Increase in the Structural Solutions mix was more than offset by lower OSB pricing and shipments.

Engineered Wood Products or EWP: Segment's sales grew 16.3% year over year to \$93 million. The upside was backed by the temporary shutdown of its North Carolina facility in 2018 owing to damage caused by hurricane. Adjusted EBITDA also increased year over year to \$3 million, primarily due to an increase in joint venture earnings and operational efficiency.

South America: Sales of \$38 million decreased 2.6% year over year due to pricing pressure from increased competition in export markets in South America and Asia, partially offset by higher Chilean shipments. Adjusted EBITDA of \$8 million was on par with the year-ago quarter.

Operating Highlights

Gross margin declined nearly 300 basis points (bps) year over year to 13%. Selling, general and administrative expenses — as a percentage of revenues — increased 110 bps.

Adjusted EBITDA from continuing operations was \$49 million in the quarter, down 25% from the prior-year figure of \$65 million. Adjusted EBITDA margin also contracted nearly 200 bps to 9.1%.

Financials

As of Dec 31, 2019, Louisiana-Pacific had cash and cash equivalents of \$181 million compared with \$878 million at the end of 2018. Long-term debt (excluding current portion) of \$348 million slightly increased from the 2018-end level of \$347 million.

At the end of 2019, net cash provided by operations was \$159 million compared with \$511 million in the comparable year-ago period.

2019 Highlights

In 2019, Louisiana-Pacific reported adjusted earnings of 37 cents per share, missing the consensus mark of 42 cents and declining 86.5% from the 2018 level of \$2.75. Net sales of \$2.31 billion also declined 18.3% year over year and slightly missed analysts' expectation of \$2.33 billion. Adjusted EBITDA also declined 68.3% from a year ago.

2020 View & Strategic Update

Based on current plans and expectations, Louisiana-Pacific expects capital expenditure in the range of \$130-\$140 million. SmartSide Strand revenue growth is targeted within 10-12% for 2020.

Notably, the company remains optimistic to fulfill its long-term adjusted EBITDA growth (through 2021) expectation of \$165 million and expects EBITDA margins to be at least 20% in the Siding segment.

Valuation

Louisiana-Pacific's shares are down 19.8% in the year-to-date period and 6% over the trailing 12-month period. Stocks in the Zacks sub-industry and but the Zacks Construction sector are down 7.1% and 7.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 13.2% and 13%, respectively.

The S&P 500 index is down 7.5% in the year-to-date period but up 7.8% in the past year.

The stock is currently trading at 13.4X forward 12-month earnings, which compares to 26.52X for the Zacks sub-industry, 19.88X for the Zacks sector and 17.02X for the S&P 500 index.

Over the past five years, the stock has traded as high as 188.8X and as low as 7.33X, with a 5-year median of 15.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 14.12X forward 12-month earnings.

The table below shows summary valuation data for LPX

Valuation Multiples - LPX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.4	26.52	19.88	17.02
	5-Year High	188.8	29.92	23.23	19.34
	5-Year Low	7.33	17.17	16.15	15.18
	5-Year Median	15.12	24.12	19.88	17.42
P/S F12M	Current	1	2.84	1.97	3.14
	5-Year High	1.71	3.18	3.19	3.44
	5-Year Low	0.89	1.4	1.81	2.54
	5-Year Median	1.2	2.68	2.53	3.01
EV/EBITDA TTM	Current	22.21	18.98	10.21	11.04
	5-Year High	103.4	22.93	17.58	12.87
	5-Year Low	3.14	10.08	10.21	8.49
	5-Year Median	9.55	15.49	12.29	10.79

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 253)



Top Peers

Armstrong Flooring, Inc. (AFI)	Neutral
Floor & Decor Holdings, Inc. (FND)	Neutral
JELD-WEN Holding, Inc. (JELD)	Neutral
Norbord Inc. (OSB)	Neutral
Rayonier Inc. (RYN)	Neutral
Universal Forest Products, Inc. (UFPI)	Neutral
Potlatch Corporation (PCH)	Underperform
Weyerhaeuser Company (WY)	Underperform

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	LPX Neutral	X Industry	S&P 500	FND Neutral	OSB Neutral	WY Underperform
VGM Score	A	-	-	D	B	F
Market Cap	2.65 B	2.03 B	19.13 B	4.62 B	1.67 B	17.86 B
# of Analysts	4	3	13	12	3	3
Dividend Yield	2.45%	0.94%	2.26%	0.00%	2.93%	5.68%
Value Score	B	-	-	D	A	D
Cash/Price	0.06	0.03	0.05	0.01	0.01	0.01
EV/EBITDA	26.22	19.56	11.99	23.94	21.20	35.35
PEG Ratio	2.55	1.27	1.68	1.27	NA	NA
Price/Book (P/B)	2.81	2.06	2.64	6.04	2.37	2.18
Price/Cash Flow (P/CF)	16.57	16.16	10.70	23.76	15.76	22.45
P/E (F1)	12.76	13.13	15.44	32.62	7.96	34.05
Price/Sales (P/S)	1.15	1.71	2.05	2.26	0.96	2.72
Earnings Yield	7.59%	5.39%	6.47%	3.05%	12.59%	2.92%
Debt/Equity	0.39	0.61	0.70	1.29	1.03	0.75
Cash Flow (\$/share)	1.43	1.90	7.01	1.92	1.30	1.07
Growth Score	C	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	13.59%	7.41%	10.85%	NA	-29.20%	-9.67%
Proj. EPS Growth (F1/F0)	387.84%	32.23%	6.25%	21.30%	796.41%	80.34%
Curr. Cash Flow Growth	-67.52%	-26.26%	6.09%	30.45%	-80.52%	-42.27%
Hist. Cash Flow Growth (3-5 yrs)	32.59%	4.35%	8.52%	48.52%	18.17%	-8.57%
Current Ratio	2.54	1.96	1.24	1.27	1.78	1.60
Debt/Capital	28.45%	38.76%	42.57%	56.35%	50.74%	42.91%
Net Margin	-0.22%	1.62%	11.69%	7.36%	-2.43%	-1.16%
Return on Equity	3.79%	3.79%	16.74%	17.33%	-4.06%	3.32%
Sales/Assets	1.15	1.01	0.54	0.98	0.87	0.39
Proj. Sales Growth (F1/F0)	15.11%	4.51%	3.76%	22.92%	22.99%	2.23%
Momentum Score	A	-	-	B	A	D
Daily Price Chg	-12.87%	-10.16%	-7.65%	-13.22%	-20.26%	-9.96%
1 Week Price Chg	-4.39%	-1.55%	-0.67%	2.72%	-3.67%	2.39%
4 Week Price Chg	-25.66%	-16.41%	-19.26%	-8.17%	-33.64%	-16.41%
12 Week Price Chg	-16.87%	-17.61%	-17.26%	-9.85%	-21.91%	-19.22%
52 Week Price Chg	-7.89%	-7.89%	-6.83%	13.72%	-24.07%	-7.31%
20 Day Average Volume	1,595,297	417,030	2,684,709	1,458,959	349,402	4,581,528
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.63%
(F1) EPS Est 4 week change	3.44%	0.00%	-0.06%	4.10%	0.00%	-1.63%
(F1) EPS Est 12 week change	10.57%	0.21%	-0.46%	3.96%	15.72%	-9.25%
(Q1) EPS Est Mthly Chg	-28.21%	0.00%	-0.40%	9.78%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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