

Louisiana-Pacific (LPX)

\$30.64 (As of 07/24/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Solid repair and remodeling activity and ample liquidity have been benefiting Louisiana-Pacific to tide over the pandemic. Louisiana-Pacific's shares have outperformed the industry over the past three months. Earnings estimates for 2020 have moved north in the past 30 days, depicting analysts' optimism over its bottom-line growth potential. Also, business transformation strategy, efficient cost-reduction plan along with the recent revival of the housing market bodes well. However, coronavirus-related woes pose a serious concern. Due to uncertainties surrounding COVID-19, it has suspended SmartSide Strand revenue projection and the share repurchase plan for 2020. It has also reduced mill operating schedules to balance production and demand.

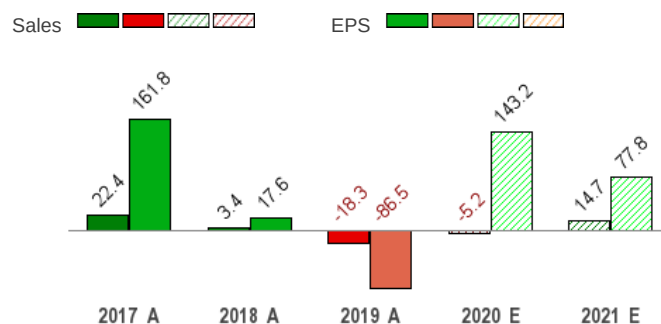
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.35 - \$12.97
20 Day Average Volume (sh)	1,302,569
Market Cap	\$3.4 B
YTD Price Change	3.3%
Beta	1.71
Dividend / Div Yld	\$0.58 / 1.9%
Industry	Building Products - Wood
Zacks Industry Rank	Top 8% (21 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.3%
Last Sales Surprise	-3.6%
EPS F1 Est- 4 week change	4.7%
Expected Report Date	08/04/2020
Earnings ESP	-5.6%
P/E TTM	52.8
P/E F1	34.0
PEG F1	6.8
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,513 E
2020	585 A	541 E	542 E	540 E	2,190 E
2019	582 A	588 A	603 A	537 A	2,310 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.60 E
2020	\$0.34 A	\$0.18 E	\$0.50 E	\$0.17 E	\$0.90 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/24/2020. The reports text is as of 07/27/2020.

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.

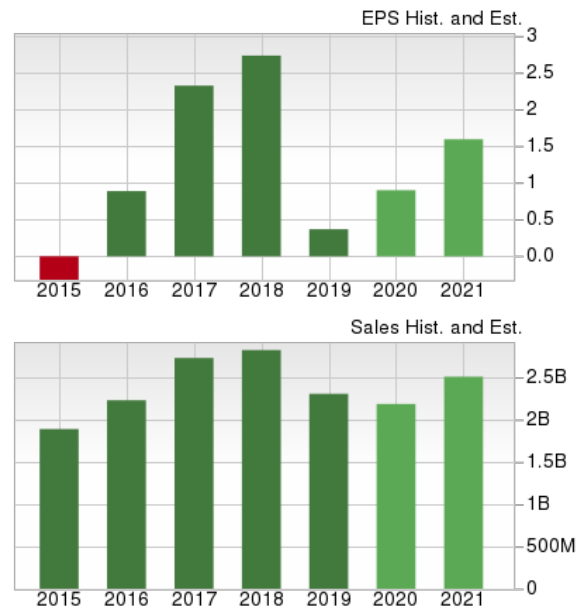
The company has four reportable segments — Siding (contributing 42% of 2019 net sales), North America Oriented Strand Board or OSB (34%), Engineered Wood Products or EWP (17%) and South America (7%). Notably, revenues from Other sources and Inter-segment sales accounted for 1% of its total net sales.

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.

▲ **Enough Liquidity & Balance Sheet:** As of Mar 31, 2020, Louisiana-Pacific had cash and cash equivalents of \$488 million, higher than \$181 million at 2019-end. The higher cash on hand reflects the company's borrowing of \$350 million in March under the revolving credit facility to deal with future uncertainties. Owing to the borrowings, its total debt to capital increased to 42.7% at first quarter-end from 27.9% at 2019-end. On May 1, it amended the credit facility to provide for an additional \$200-million revolver, which matures in May 2023. Encouragingly, the company does not have any future obligations under the \$350-million revolving credit facility and 4.875% Senior Notes until 2024. Although total long-term debt (including non-current operating lease liabilities) nearly doubled to \$732 million sequentially, ample liquidity of \$700 million and no maturities until 2024 will help it tide over the uncertain situation.

Amid the uncertainties, Louisiana-Pacific reduced 2020 capital expenditure plans by 50% to roughly \$70 million for 2020, coming to an average of \$15 million per quarter (from second to fourth quarter). Also, it is closely examining all discretionary spending to deal with the future expenses.

▲ **Enhancing Shareholders' Return:** Louisiana-Pacific has been consistently enhancing shareholders' return through share repurchases and dividends. In first-quarter 2020, the company paid \$17 million worth of dividends and \$4 million to repurchase stocks. In order to preserve cash amid the coronavirus-induced crisis situation, it has reduced spending on capital projects and suspended share buybacks. Although its authorization to buy back \$200 million worth of shares remains in effect, Louisiana-Pacific has no plans to buy back shares in 2020. As of now, the company remains committed to enhance shareholders' value through dividend payments.

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. For long-term (through 2021), it reaffirms SmartSide strand revenue growth rate of 10-12%. 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 the said business in 2020 and beyond.

▲ **Strategic Investments:** Louisiana-Pacific's business banks on acquisitions, business combinations and divestures of low-profitable businesses. In sync with the strategy, 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.

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.

Risks

- **Coronavirus-Related Disruptions:** Due to uncertainties surrounding the impact of coronavirus, governmental responses and subsequent economic recovery, LP suspends its SmartSide Strand sales growth guidance for 2020. COVID-19 has been adversely impacting demand, as is evident from the slowing down of its pre-break-up log purchases.
- **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 cyclicity. 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. The company believes that nearly 40% of SmartSide revenues come from single-family housing.

Discouragingly, coronavirus woes, and imminent recession and layoffs resulting from the same are anticipated to dent the housing market in the near term.

- **Tariff-Related Woes & 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.

Although OSB prices have increased recently, pricing pressure under the OSB segment has been impacting the company's overall operating results since 2018. 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.

Last Earnings Report

Louisiana-Pacific Q1 Earnings Beat, Margins Up Y/Y

Louisiana-Pacific Corporation reported impressive results in first-quarter 2020, with earnings beating the Zacks Consensus Estimate and increasing significantly from the prior year on the back of higher EBITDA margin and lower cash taxes.

Notably, the company has suspended SmartSide Strand revenue projection for 2020. Also, it does not plan any share repurchase in 2020. Moreover, the company has reduced mill operating schedules to balance production and demand.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-3.62%
EPS Surprise	13.33%
Quarterly EPS	0.34
Annual EPS (TTM)	0.58

Detailed Discussion

The company reported adjusted earnings of 34 cents per share, which surpassed the Zacks Consensus Estimate of 30 cents by 13.3%. The metric increased a whopping 161.5% from the year-ago reported figure of 13 cents per share.

Net sales totaled \$585 million, missing the consensus estimate of \$607 million by 3.6% but increasing 0.5% from the year-ago period. Strong growth of Oriented Strand Board (OSB) and Engineered Wood Products (EWP) businesses supported the growth. However, decline in Siding and South America sales partially offset the growth.

Single family housing starts grew 12.2% year over year. Multi-family starts also surged an impressive 46.8% from the prior year.

Segmental Analysis

Siding: The segment's sales of \$212 million were down 3.2% from the prior-year period. The decline was due to a \$7-million decrease in SmartSide Fiber sales and \$4-million decline in OSB and other sales, partially offset by a 3% increase in SmartSide Strand volume. However, adjusted EBITDA improved 7.7% from the prior-year quarter to \$42 million. The upside was backed by increased production at its Dawson Creek facility, post conversion into SmartSide Strand in 2019.

Notably, LP CanExel prefinished siding was reclassified from Siding to Other in first-quarter 2020.

OSB: Sales in the segment increased 5.8% year over year to \$220 million. The company's adjusted EBITDA also jumped significantly to \$35 million from \$8 million reported a year ago. Increase in selling price and reduction in raw material costs, including wood and resin, supported the growth.

EWP: Segment's sales grew 10% year over year to \$99 million. Adjusted EBITDA also improved 28.6% year over year to \$9 million, primarily backed by increased shipments of I-Joist and LVL, as well as reduction in customer program costs.

South America: Sales of \$36 million decreased 20% and adjusted EBITDA of \$7 million fell 30% from the year-ago quarter. Reduction in export sales, unscheduled downtime at a Chilean mill and unfavorable foreign currency fluctuations impacted the results.

Operating Highlights

Gross margin expanded 460 basis points (bps) year over year to 18.5%. Selling, general and administrative expenses — as a percentage of revenues — contracted 20 bps.

Adjusted EBITDA of \$83 million was up 43.1% from the prior-year figure of \$58 million. Adjusted EBITDA margin also rose 420 bps to 14.2%, driven by higher OSB prices.

Financials

As of Mar 31, 2020, Louisiana-Pacific had cash and cash equivalents of \$488 million compared with \$181 million at the end of 2019. In March, the company borrowed \$350 million under the revolving credit facility to deal with future uncertainties.

Again on May 1, it amended the credit facility to provide for an additional \$200 million revolver, which matures in May 2023. Meanwhile, it did not withdraw any amount under the credit facility.

The company does not have any future obligations under the \$350-million revolving credit facility and 4.875% Senior Notes until 2024.

Long-term debt was \$698 million, which nearly doubled from 2019-end.

At the first quarter, net cash used in operations was \$9 million, significantly down from \$54 million reported in the comparable year-ago period.

2020 View

Based on current plans, Louisiana-Pacific expects capital expenditure to be less than \$70 million.

Valuation

Louisiana-Pacific's shares are up 3.3% in the year-to-date period and 16.1% over the trailing 12-month period. Stocks in the Zacks sub-industry is and the Zacks Construction sector is up 2.2% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 20.8% and 13%, respectively.

The S&P 500 index is up 0.1% in the year-to-date period and 7% in the past year.

The stock is currently trading at 23.6X forward 12-month earnings, which compares to 39.6X for the Zacks sub-industry, 19.52X for the Zacks sector and 22.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 146.9X and as low as 7.33X, with a 5-year median of 14.92X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$35 price target reflects 27.13X 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	23.6	39.6	19.52	22.51
	5-Year High	146.9	43.18	19.52	22.51
	5-Year Low	7.33	17.09	10.74	15.25
	5-Year Median	14.92	24.03	15.86	17.52
P/S F12M	Current	1.43	3.33	2.05	3.55
	5-Year High	1.71	3.33	2.12	3.55
	5-Year Low	0.59	1.4	1.17	2.53
	5-Year Median	1.21	2.71	1.63	3.02
EV/EBITDA TTM	Current	19.28	24.42	18.37	11.95
	5-Year High	82.06	24.45	21.24	12.86
	5-Year Low	3.05	9.91	12.43	8.25
	5-Year Median	9.59	16.18	17.85	10.88

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 8% (21 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Armstrong Flooring, Inc. (AFI)	Outperform	NA
Potlatch Corporation (PCH)	Outperform	2
Universal Forest Products, Inc. (UFPI)	Outperform	2
FloorDecor Holdings, Inc. (FND)	Neutral	3
JELDOWEN Holding, Inc. (JELD)	Neutral	2
Norbord Inc. (OSB)	Neutral	3
Rayonier Inc. (RYN)	Neutral	2
Weyerhaeuser Company (WY)	Neutral	3

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	LPX	X Industry	S&P 500	BXC	FND	OSB
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	C	-	-	C	C	A
Market Cap	3.44 B	2.84 B	22.16 B	102.78 M	6.95 B	2.60 B
# of Analysts	4	3	14	1	11	3
Dividend Yield	1.89%	0.46%	1.81%	0.00%	0.00%	0.46%
Value Score	D	-	-	D	D	C
Cash/Price	0.15	0.05	0.06	0.12	0.05	0.01
EV/EBITDA	33.78	18.68	13.07	13.66	34.16	29.80
PEG Ratio	6.81	3.82	3.03	NA	3.82	NA
Price/Book (P/B)	3.49	2.55	3.11	NA	8.57	3.90
Price/Cash Flow (P/CF)	21.42	20.25	12.27	5.73	35.41	24.48
P/E (F1)	34.04	41.94	21.88	NA	84.11	25.89
Price/Sales (P/S)	1.49	1.51	2.38	0.04	3.27	1.51
Earnings Yield	2.94%	2.00%	4.34%	-11.67%	1.19%	3.86%
Debt/Equity	0.74	0.74	0.76	-29.58	1.61	1.16
Cash Flow (\$/share)	1.43	1.88	7.01	1.92	1.92	1.30
Growth Score	C	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	3.55%	5.00%	10.82%	NA	NA	-29.20%
Proj. EPS Growth (F1/F0)	143.92%	-13.28%	-9.01%	-2.40%	-29.88%	432.43%
Curr. Cash Flow Growth	-67.52%	-31.17%	5.47%	-284.67%	30.45%	-80.52%
Hist. Cash Flow Growth (3-5 yrs)	32.59%	19.60%	8.55%	92.45%	48.52%	18.17%
Current Ratio	4.56	2.27	1.31	3.34	1.88	2.27
Debt/Capital	42.99%	42.99%	44.41%	NA	61.67%	53.69%
Net Margin	0.04%	1.71%	10.46%	-0.44%	7.39%	-1.34%
Return on Equity	5.91%	5.60%	15.13%	NA	17.08%	-0.99%
Sales/Assets	1.14	1.13	0.54	2.54	0.93	0.87
Proj. Sales Growth (F1/F0)	-5.19%	-1.03%	-2.06%	-2.54%	-0.37%	2.66%
Momentum Score	A	-	-	C	C	A
Daily Price Chg	2.44%	-0.09%	-0.65%	-5.51%	1.92%	3.11%
1 Week Price Chg	9.97%	5.05%	3.82%	32.49%	2.67%	11.69%
4 Week Price Chg	29.17%	17.40%	4.96%	41.18%	21.74%	53.30%
12 Week Price Chg	53.20%	42.88%	9.30%	100.55%	59.95%	96.66%
52 Week Price Chg	16.41%	8.13%	-2.82%	-44.09%	71.87%	31.79%
20 Day Average Volume	1,302,569	450,797	2,026,477	175,463	926,365	221,061
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	4.59%
(F1) EPS Est 4 week change	4.75%	5.94%	0.15%	5.88%	1.32%	36.33%
(F1) EPS Est 12 week change	-15.13%	-4.10%	-3.24%	17.95%	-13.22%	841.86%
(Q1) EPS Est Mthly Chg	0.00%	1.79%	0.00%	69.23%	1.79%	81.82%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	C
Momentum Score	A
VGM Score	C

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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