

Rayonier Inc. (RYN)

\$26.35 (As of 07/16/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: B

Summary

Rayonier completed the Pope Resources buyout in early May. The move indicates the company's strategy of adding high-quality timberlands in strong log markets. This will also enable it to capitalize on Seattle's growing population, housing and job markets. Further, with manageable near-term capital needs, it has ample liquidity to navigate through uncertain times. Strong softwood log and lumber imports to China will aid the company. However, amid lockdown mandates, its New Zealand operations witnessed a decline in harvest volumes and export sawtimber prices. Also, cut-throat competition from national and local players remains a concern while stringent regulations in the timberlands business hurt the operations of the company. Additionally, the company's shares have underperformed the industry it belongs to over the past year.

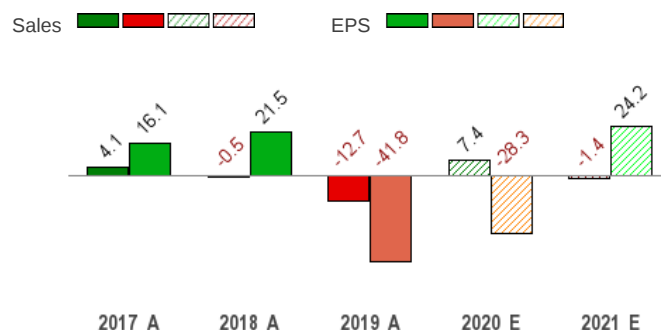
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.10 - \$15.96
20 Day Average Volume (sh)	634,810
Market Cap	\$3.4 B
YTD Price Change	-19.6%
Beta	0.89
Dividend / Div Yld	\$1.08 / 4.1%
Industry	Building Products - Wood
Zacks Industry Rank	Top 5% (13 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-100.0%
Last Sales Surprise	-13.6%
EPS F1 Est- 4 week change	14.3%
Expected Report Date	08/05/2020
Earnings ESP	125.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	183 E	156 E	179 E	200 E	754 E
2020	143 A	148 E	162 E	197 E	765 E
2019	192 A	185 A	156 A	179 A	712 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.09 E	\$0.07 E	\$0.11 E	\$0.14 E	\$0.41 E
2020	\$0.00 A	\$0.01 E	\$0.03 E	\$0.09 E	\$0.33 E
2019	\$0.19 A	\$0.14 A	\$0.00 A	\$0.12 A	\$0.46 A

*Quarterly figures may not add up to annual.

P/E TTM	101.4
P/E F1	82.3
PEG F1	NA
P/S TTM	4.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/16/2020. The reports text is as of 07/17/2020.

Overview

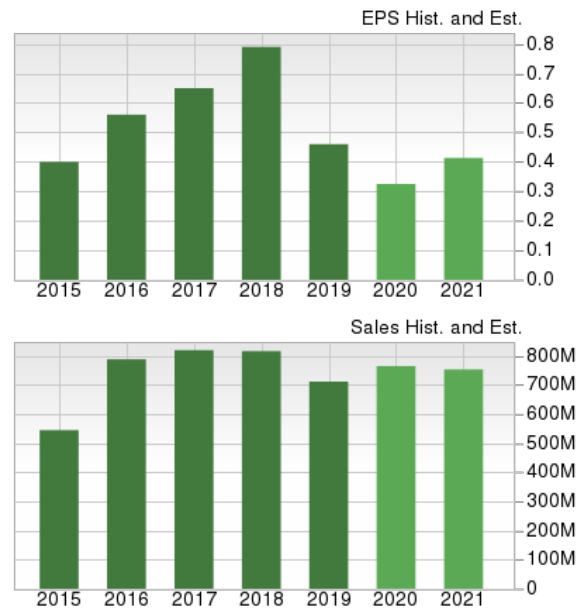
Jacksonville, FL-based Rayonier Inc. is a leading pure-play timberland real estate investment trust (REIT). The company, as of Mar 31, 2020, owned, leased or managed 2.6 million acres of timberlands across the United States and New Zealand.

Its portfolio includes 1.8 million acres and 384,000 acres in the Southern United States and Pacific Northwest, respectively. Notably, Rayonier — via a New Zealand-based joint venture — holds a 77% ownership interest in Matariki Forestry Group. Matariki owns or leases around 415,000 gross acres of timberlands in New Zealand.

The company mainly operates in five segments — Southern Timber, Pacific Northwest Timber, New Zealand Timber, Real Estate and Trading. Southern Timber, Pacific Northwest Timber and New Zealand Timber segments comprise all activities associated with harvesting of timber, as well as other non-timber income activities. Licensing of properties for hunting, leasing of properties for mineral extraction and cell towers, and carbon credit sales are among the non-timber income activities.

The Real Estate segment comprises all U.S. and New Zealand land or leasehold sales. Further, the Trading segment mainly includes log trading activities that support the company's New Zealand operations. This segment is engaged in offering additional market intelligence, thereby growing the scale of export operations and realizing cost savings, which benefit the New Zealand Timber segment. Also, it offers market intelligence that benefits Southern and Pacific Northwest export log marketing.

In May 2020, Rayonier completed the acquisition of Pope Resources. The move is in sync with the company's strategy of adding high-quality timberlands in strong log markets and will enhance the long-term value for shareholders. Moreover, Rayonier assumed \$45 million of Pope Resources' term credit facility. This comprised a number of tranches with maturity dates ranging from 2025 to 2036 and weighted average interest rate of 4.1%.



Reasons To Buy:

- ▲ Rayonier owns or leases 2.6 million acres of timberlands in some of the most productive timber-growing regions of the U.S. South, Pacific Northwest and New Zealand. Further, the timberlands are strategically located near the pulpwood consuming mills which manufacture products for the growing end-markets. Moreover, about 62% of Rayonier's Southern timberlands are positioned in the top two markets. Over the last several years, lumber production and capacity in the U.S. South has grown significantly, a trend that is expected to continue. Moreover, growth in demand for softwood pulpwood has remained strong and is poised to pick up the pace on expanding oriented strand board capacity investments. In fact, the company expects softwood log and lumber imports to China to remain strong, given its growing timber supply deficit.
- ▲ The company has banked on strategic acquisitions to expand its portfolio and improve portfolio quality. The company's acquisitions are complementary to age-class profile and improved portfolio site index and inventory stocking. Timberlands buyouts for first quarter amounted to \$24.1 million. In addition, in early May, Rayonier completed the acquisition of Pope Resources in a cash-and-stock deal. The buyout is a strategic fit for Rayonier as it will substantially enhance the scale of the company's Pacific Northwest timberland portfolio, adding 125,000 acres of fee ownership and increasing sustainable yield by 57 MMBF (or 455,000 tons) annually. Also, quality of Rayonier's Pacific Northwest portfolio gets uplift as proportion of Douglas-fir merchantable inventory will increase from 60% to 68%. The move adds to the geographic and log market diversity, as well as increases the proportion of ground-based logging, with significantly lower operating costs.
- ▲ Rayonier constantly strives for finding alternative uses of the timberlands for higher and better uses (HBU) and there are many attractive HBU opportunities across the U.S. South, mainly in the Florida and Georgia coastal corridor. The company remains focused on unlocking long-term value of its HBU development and rural property portfolio in its real estate segment. Also, the company has significantly improved its average HBU price realizations in recent years.
- ▲ Recent developments in the field of biogenetics and cloning have provided a tremendous impetus to the timberland REIT's business. Application of biogenetics leads to fast-growth in trees, ensuring proper sizes for maximum extraction of wood.
- ▲ The company enjoys solid adjusted EBITDA margins, high EBITDA-to-Free Cash Flow conversion and a well-staggered maturity profile. Recurring cash generation from operations provides the company with sufficient capacity to maintain the productivity of timberlands through replanting and silviculture, and pursue timberland acquisitions. Annually, it invests nearly \$35 million in silviculture and regeneration. Further, Rayonier ended the first quarter with \$132.4 million in cash and cash equivalents. Following the quarter-end, the company executed several debt-financing transactions, further bolstering liquidity position. The company expects capital expenditure of \$60-\$64 million for 2020 and has no maturities of its long-term debt in 2020. Hence, with manageable near-term capital commitments, Rayonier has ample liquidity to navigate through the challenging market conditions amid the pandemic, and withstand any credit crisis. Lastly, the company has a strong credit profile, with significant asset coverage. It enjoys investment-grade credit rating of BBB- and Baa3 as well as a stable outlook from S&P Global Ratings and Moody's, respectively.
- ▲ Moreover, the company remains committed to increasing shareholders' wealth through dividend hikes and share buybacks. It increased the quarterly dividend by 8% to 27 cents per share, effective second-quarter 2018, and thereafter maintained the same dividend rate. Apart from dividend hikes, the company remains committed to increase shareholder value through share buybacks. Further, as of Mar 31, 2020, it had a remaining share-buyback authorization of \$87.7 million. Such moves boost investor's confidence in the stock.
- ▲ Shares of Rayonier have underperformed its industry over the past year. The company's shares have depreciated 9.8% as against its industry's growth of 16.8%. Nonetheless, Rayonier's 2020 earnings estimate revisions indicates a favorable outlook. In fact, the Zacks Consensus Estimate for 2020 earnings has been revised 43.5% upward over the past month. Therefore, given its strong fundamentals and positive estimate revisions, the stock has decent upside potential.

Geographical diversity, favorable demand-supply dynamics, ample liquidity, disciplined acquisition strategy, and recent development in biogenetics and cloning keeps Rayonier's momentum going.

Reasons To Sell:

- ▼ Rayonier faces cut-throat competition in the market from national and local players, regarding a number of factors, including quality and price. Additionally, wood products, in general, encounter increasing rivalry from a variety of substitute products, like non-wood and engineered wood products.
- ▼ The company's earnings are susceptible to foreign exchange fluctuations because a number of its segments export products outside the nation. Specifically, the Pacific Northwest exports huge volumes of timber to China. The New Zealand Timber segment sells timber to mills in New Zealand as well as exports to markets in China, Korea and India. Also, export market conditions remain challenging due to competition from European salvage volume.
- ▼ The COVID-19 outbreak has led to dislocations and volatility in the global capital markets. In fact, continued shutdown of non-essential businesses is anticipated to impact the U.S. timber markets. Although in the United States, the forest products industry has continued operations due to its essential-industry status, new home construction has stalled. This is expected to impact the company's US operations. Moreover, its New Zealand operations were severely affected as forestry is categorized as a non-essential business. This resulted in a 20% reduction in harvest volumes as well as 18% and 16% declines in export and domestic sawtimber prices, respectively. Further, the company reduced full-year volume guidance for its New Zealand segment guidance by approximately 450,000 tons. Rayonier expects market conditions over the upcoming quarters to remain challenging, with a significant slowdown of construction and overall economic activity.
- ▼ Timberland business is governed by federal rules and state forestry commissions. In other words, timberland REITs have to comply with strict regulatory requirements compared with other industries. These laws and regulations, which are subject to frequent changes, adversely affect the business of the timberland REIT. Further, due to the very nature of their properties, the timberland REITs are required to follow eco-friendly mandates in their trade.

Tough compliance requirements, seasonality of forest products industry, cut-throat competition from national and local players, and the pandemic-led market choppiness pose concerns before Rayonier.

Last Earnings Report

Rayonier Misses on Q1 Earnings & Revenues, Trims View

Rayonier reported first-quarter 2020 net income attributable to the company of \$25.9 million or 20 cents per share. This included an income from a Large Disposition sale of \$28.7 million, which was partially offset by the costs related to the merger with Pope Resources. The company had earned \$24.8 million or 19 cents per share in the year ago quarter.

The pro forma net loss came in at \$0.3 million or \$0.00 per share. This missed the Zacks Consensus Estimate of earnings of 3 cents per share.

The company's quarterly performance reflects a declining operating income in Southern Timber and New Zealand Timber.

Revenues were down 25.3% year over year to \$143.1 million on a pro forma basis and missed the Zacks Consensus Estimate of \$165.6 million.

The coronavirus pandemic and the ensuing uncertain situation has resulted in the company revising its full-year outlook.

Segmental Performance

During the first quarter, operating income at the company's Southern Timber segment came in at \$15.1 million, down from the prior-year quarter's \$21.5 million. This downside resulted from lower non-timber income, net-stumpage prices and volumes. However, the negatives were partially offset by a drop in lease related expenses and lower depletion rates.

The Pacific Northwest Timber segment reported an operating loss of \$0.9 million, narrower than the operating loss of \$3.7 million posted in first-quarter 2019. This was mainly due to higher net stumpage prices, non-timber income and reduced depletion rates, partially offset by an increase in overhead costs and other variable costs.

The New Zealand Timber segment recorded operating income of \$5.4 million, down from the year-earlier number of \$15.7 million. Results indicate lower net stumpage prices, volumes, non-timber income, higher overhead costs and roading costs, partly negated by lower depreciation and software amortization expenses, and favorable foreign-exchange impact.

Real Estate's operating income of \$26.8 million was significantly up from the year-ago tally of \$10 million. This chiefly resulted from a large disposition sale of \$116 million in Mississippi, comprising an area of 66,946 acres at an average price of \$1,733 per acre.

The Trading segment reported break-even results in the quarter against an operating income of \$0.5 million recorded in the year-ago quarter. This is mainly due to lower volumes and prices prevailing due to the coronavirus pandemic hurting major export markets.

Liquidity

Rayonier ended the first quarter with \$132.4 million in cash and cash equivalents, up from \$68.7 million recorded as of Dec 31, 2019. Total long-term debt was \$1.1 billion, up 8.4% from \$973.1 million as on Dec 31, 2019.

During the reported quarter, the company also repurchased 3.2 million common shares at an average price of \$20.71 per share. As of March 31, 2020, the company had 129.2 million common shares outstanding and \$87.7 million remaining on its current share-repurchase authorization.

Outlook

Rayonier has revised its full-year outlook in light of the coronavirus pandemic. The company now projects 2020 net income attributable to Rayonier of \$33-\$46 million and adjusted EBITDA of \$200-\$230 million. The company had earlier estimated 2020 net income attributable to Rayonier of \$47-\$57 million and adjusted EBITDA of \$245-\$270 million.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	-13.56%
EPS Surprise	-100.00%
Quarterly EPS	0.00
Annual EPS (TTM)	0.26

Recent News

Rayonier Accomplishes Pope Resources Acquisition – May 8, 2020

Rayonier completed the acquisition of Pope Resources. The move is in sync with the company's strategy of adding high-quality timberlands in strong log markets and will enhance the long-term value for shareholders.

Moreover, Rayonier assumed \$45 million of Pope Resources' term credit facility. This comprised a number of tranches with maturity dates ranging from 2025 to 2036 and weighted average interest rate of 4.1%.

Per the agreement terms of this cash-and-stock transaction, Pope Resources unitholders had the right to elect to receive 3.929 Rayonier common shares (the "Stock election"), 3.929 units of the operating partnership of Rayonier (the "Opco Election"), or \$125 in cash (the "Cash Election") in exchange for each unit of Pope Resources, subject to a proration mechanism.

The total consideration paid by Rayonier to acquire all of the outstanding limited partnership units of Pope Resources (excluding units already owned by Rayonier) and the general partnership interests of Pope Resources comprises \$169.5 million of cash, 7.1 million common shares of Rayonier and 4.6 million Opco units of Rayonier L.P.

The acquisition is a strategic fit for Rayonier as it will substantially enhance the scale of the company's Pacific Northwest timberland portfolio. According to Rayonier's prior announcement about the deal in January, the buyout leads to adding 125,000 acres of fee ownership and increasing sustainable yield by 57 MMBF (or 455,000 tons) annually. Moreover, the quality of Rayonier's Pacific Northwest portfolio gets uplift, as the proportion of Douglas-fir merchantable inventory will increase from 60% to 68%. The move adds to the geographic and log market diversity, as well as increases the proportion of ground-based logging, with significantly lower operating costs.

The acquisition will also result in adding 17,000 "look-through" acres from timber fund business as well as offer the scope to capitalize on regional expertise in silvicultural practices, log marketing and logistics. Furthermore, the move will solidify the pipeline of value-added HBU and real estate development opportunities, including projects in Gig Harbor, Port Gamble, Kingston and Bainbridge Island in the west Puget Sound area.

The acquisition will lead to expected synergies of \$5 million annually. The company will benefit from the reduction of overhead expenses and elimination of redundant public company costs. Additionally, there is an opportunity to lower debt through portfolio optimization and large dispositions. Further, the umbrella partnership real estate investment trust ("UPREIT") structure provides tax deferral option for Pope unitholders, while facilitating future timberland buyouts prospects for Rayonier.

Dividend Update

On May 18, Rayonier announced a second-quarter cash dividend of 27 cents per share on its common stock. This dividend was paid out on Jun 30 to its shareholders of record as of Jun 16, 2020.

Valuation

Rayonier shares have been down 9.8% in the trailing 12 months. Stocks in the Zacks sub-industry have increased 16.8% while the Zacks Construction sector has gained 9.7% over the past year, respectively.

The S&P 500 Index is up 8.4% over the past year.

The stock is currently trading at 70.66X forward 12-month price to earnings versus 41.37X for the Zacks sub-industry, 19.13X for the Zacks sector and 22.72X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 114.23X and as low as 33.96X, with a 5-year median of 58.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$28 price target reflects 75.08 forward 12-month earnings.

The table below shows summary valuation data for RYN.

Valuation Multiples - RYN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	70.66	41.37	19.13	22.72
	5-Year High	114.23	43.18	19.13	22.72
	5-Year Low	33.96	17.09	10.75	15.25
	5-Year Median	58.37	24.03	15.88	17.52
P/S F12M	Current	4.49	3.22	1.83	3.55
	5-Year High	6.49	3.22	2.12	3.55
	5-Year Low	3.20	1.40	1.17	2.53
	5-Year Median	5.39	2.71	1.60	3.02
P/B TTM	Current	2.43	3.05	3.95	4.42
	5-Year High	2.98	3.29	6.74	4.56
	5-Year Low	1.57	1.60	1.71	2.83
	5-Year Median	2.31	2.60	3.28	3.71

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Top 5% (13 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Farmland Partners Inc. (FPI)	Outperform	2
Potlatch Corporation (PCH)	Outperform	2
CatchMark Timber Trust, Inc. (CTT)	Neutral	3
EPR Properties (EPR)	Neutral	3
Innovative Industrial Properties, Inc. (IIPR)	Neutral	3
Gladstone Land Corporation (LAND)	Neutral	3
Weyerhaeuser Company (WY)	Neutral	3
Safhold Inc. (SAFE)	Underperform	5

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	RYN	X Industry	S&P 500	CTT	PCH	WY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	F	-	-	D	B	D
Market Cap	3.41 B	2.72 B	22.43 B	460.61 M	2.72 B	18.76 B
# of Analysts	2	3	14	3	1	4
Dividend Yield	4.10%	0.51%	1.82%	5.71%	3.93%	5.41%
Value Score	D	-	-	F	C	D
Cash/Price	0.04	0.05	0.07	0.00	0.03	0.08
EV/EBITDA	17.96	17.96	13.00	-18.85	21.08	34.96
PEG Ratio	NA	3.45	2.97	NA	NA	NA
Price/Book (P/B)	2.43	2.47	3.13	2.97	2.37	2.32
Price/Cash Flow (P/CF)	18.15	19.20	12.13	NA	21.61	23.56
P/E (F1)	82.34	42.20	21.97	NA	67.78	103.67
Price/Sales (P/S)	4.37	1.41	2.38	4.15	3.19	2.83
Earnings Yield	1.21%	1.48%	4.35%	-2.65%	1.48%	0.95%
Debt/Equity	0.75	0.74	0.75	2.79	0.62	0.78
Cash Flow (\$/share)	1.45	1.88	6.94	-1.47	1.88	1.07
Growth Score	F	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	2.40%	5.00%	10.85%	NA	6.45%	-12.01%
Proj. EPS Growth (F1/F0)	-29.35%	-14.29%	-9.37%	86.67%	-25.00%	-37.82%
Curr. Cash Flow Growth	-23.97%	-31.17%	5.51%	-24.67%	-41.03%	-42.27%
Hist. Cash Flow Growth (3-5 yrs)	-0.65%	19.60%	8.55%	NA	1.90%	-8.57%
Current Ratio	2.73	2.27	1.30	0.80	1.53	1.37
Debt/Capital	42.99%	42.99%	44.33%	73.60%	38.21%	43.80%
Net Margin	7.74%	1.71%	10.59%	-60.46%	3.78%	5.47%
Return on Equity	2.25%	5.60%	15.74%	-37.69%	5.28%	4.09%
Sales/Assets	0.28	1.14	0.54	0.16	0.38	0.39
Proj. Sales Growth (F1/F0)	7.53%	-5.19%	-2.44%	-5.36%	-6.71%	-7.77%
Momentum Score	B	-	-	F	B	B
Daily Price Chg	1.50%	0.38%	-0.06%	-1.66%	-0.49%	0.32%
1 Week Price Chg	4.51%	4.51%	-0.41%	3.37%	4.13%	6.52%
4 Week Price Chg	10.57%	12.18%	1.63%	12.50%	12.66%	12.18%
12 Week Price Chg	11.42%	58.92%	15.55%	34.81%	29.03%	32.46%
52 Week Price Chg	-9.82%	3.58%	-4.26%	-5.50%	7.00%	0.16%
20 Day Average Volume	634,810	501,384	2,236,294	224,291	501,384	5,519,081
(F1) EPS Est 1 week change	14.29%	4.75%	0.00%	0.00%	0.00%	5.43%
(F1) EPS Est 4 week change	14.29%	14.29%	0.01%	-11.77%	160.87%	25.97%
(F1) EPS Est 12 week change	-27.27%	-10.15%	-5.24%	-10.15%	918.18%	-21.77%
(Q1) EPS Est Mthly Chg	0.00%	40.64%	0.00%	-28.57%	160.00%	233.33%

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	F
Momentum Score	B
VGM Score	F

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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