

Rayonier Inc. (RYN)

\$32.12 (As of 01/20/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

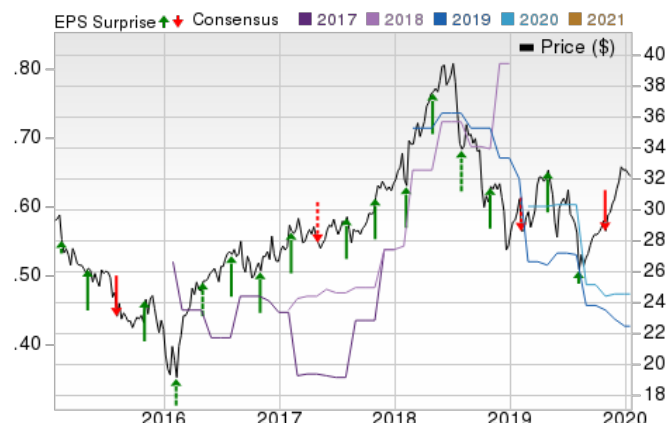
Growth: F

Momentum: A

Summary

Rayonier recently agreed to acquire Pope Resources in a cash-and-stock deal valued at \$554 million, or \$126.91 per unit. The move comes as part of its strategy of adding high-quality timberlands in strong log markets and will enhance the long-term value for shareholders. Notably, Rayonier owns a portfolio of timberlands in some of the most productive timber-growing regions of the U.S. South, Pacific Northwest and New Zealand. Strategic acquisitions and better pricing power augur well. However, adverse impact of the choppy domestic market and a challenging export market is likely to keep eroding the company's performance. Moreover, its shares have underperformed industry over the past year. Nevertheless, it is likely to get some relief from the Real Estate segment, given its expectation of strong contribution in the fourth quarter.

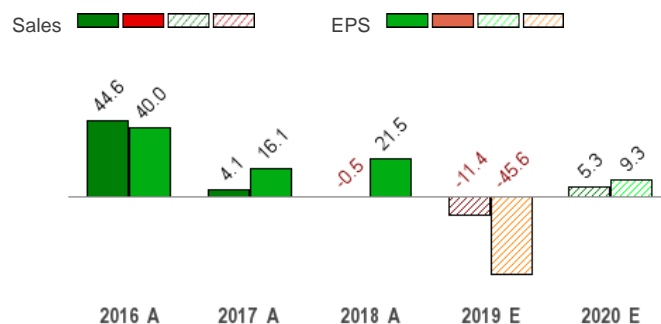
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.10 - \$25.83
20 Day Average Volume (sh)	372,717
Market Cap	\$4.2 B
YTD Price Change	-2.0%
Beta	0.88
Dividend / Div Yld	\$1.08 / 3.4%
Industry	Building Products - Wood
Zacks Industry Rank	Top 14% (35 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-100.0%
Last Sales Surprise	-6.6%
EPS F1 Est- 4 week change	5.2%
Expected Report Date	02/05/2020
Earnings ESP	-6.9%
P/E TTM	91.8
P/E F1	68.3
PEG F1	NA
P/S TTM	5.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	186 E	171 E	192 E	201 E	761 E
2019	192 A	185 A	156 A	190 E	723 E
2018	203 A	246 A	201 A	166 A	816 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.12 E	\$0.11 E	\$0.13 E	\$0.13 E	\$0.47 E
2019	\$0.19 A	\$0.14 A	\$0.00 A	\$0.10 E	\$0.43 E
2018	\$0.31 A	\$0.28 A	\$0.18 A	\$0.02 A	\$0.79 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 01/20/2020. The reports text is as of 01/21/2020.

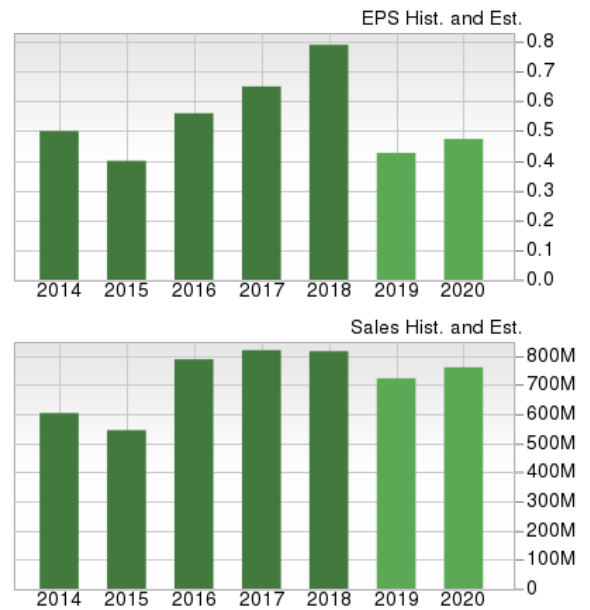
Overview

Jacksonville, FL-based Rayonier Inc. is a leading timberland real estate investment trust (REIT). The company, as of Sep 30, 2019, owned or leased — under long-term agreements — around 2.6 million acres of timberlands across the United States and New Zealand.

Its portfolio includes 1.8 million acres and 379,000 acres in the U.S. South 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 410,000 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.



Reasons To Buy:

- ▲ Rayonier owns or leases around 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 59% of Rayonier's Southern timberlands are positioned in the top three 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. The company also remains well poised to capitalize on U.S. South export prospects, though tariffs on log exports to China have hampered export market growth recently. 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. Also, softwood log and lumber imports into China are likely to remain strong given its growing timber supply deficit.
- ▲ The company has banked on strategic acquisitions to expand its portfolio and improve portfolio quality. These include \$1.7 billion of timberlands acquisition since 2011. Moreover, year-to-date acquisitions through the end of the third quarter aggregated nearly 38,000 acres for a total value of \$82 million. The company's acquisitions are complementary to age-class profile and improved portfolio site index and inventory stocking. In addition, recently, Rayonier has agreed to acquire Pope Resources in a cash-and-stock deal valued at \$554 million, or \$126.91 per unit. The acquisition 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.
- ▲ Rayonier has a strong, investment grade credit profile with significant asset coverage. The company enjoys solid adjusted EBITDA margins as well as high EBITDA-to-Free Cash Flow conversion. Additionally, it has 100% of debt fixed with 3.3% average debt cost. Recurring cash generation from operations provides the company sufficient capacity to maintain productivity of timberlands through replanting and silviculture and pursue timberland acquisitions. Annually, it invests nearly \$35 million in silviculture and regeneration. Moreover, the company remains committed to increasing shareholders' wealth through dividend and share buybacks. It increased quarterly dividend by 8% to 27 cents per share effective second-quarter 2018 and thereafter maintained the same dividend rate. Further, during the reported quarter, Rayonier repurchased shares worth \$8.4 million at an average price of \$26.34 per share and the company has a remaining share-buyback authorization of \$90.9 million.
- ▲ Shares of Rayonier have underperformed its industry over the past year. The company's shares have gained 10.9% compared with the industry's growth of 32.5% during this period. However, the company's current-year earnings estimate revisions indicates a favorable outlook. In fact, the Zacks Consensus Estimate for 2020 earnings has been revised 4.4% upward over the past month. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has decent upside potential.

Geographical diversity, favorable demand-supply dynamics, better pricing power, disciplined acquisition strategy & recent development in biogenetics and cloning bode well for Rayonier.

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. Markedly, the U.S.-China trade war and the resultant impact keep us apprehensive about its timber segment's performance. In the Pacific Northwest Timber segment, the company has deferred planned harvest in response to weak market conditions. Given the current trade dispute issues, Rayonier forecasts limited upside to current prices through the rest of the year.
- ▼ 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 foreign exchange fluctuations pose concerns before Rayonier.

Last Earnings Report

Rayonier's Q3 Earnings and Revenues Miss Estimates

Rayonier reported third-quarter 2019 break-even earnings per share versus the Zacks Consensus Estimate of 3 cents. This also compares unfavorably with the prior-year quarter earnings of 18 cents per share.

Revenues were down 22.2% year over year to \$156.4 million. The figure also missed the Zacks Consensus Estimate of \$168 million.

Lower operating income in the New Zealand Timber segment and Real Estate segment affected Rayonier's performance. Further, the Pacific Northwest Timber segment incurred operating loss during the quarter. Notably, the difficult export and challenging domestic market conditions across the company's timber segments are likely to temper its growth tempo to some extent in the near term.

Segmental Performance

During the reported quarter, operating income in the company's Southern Timber segment came in at \$9.5 million, up 3.3% year over year. This upside resulted from higher non-timber income and lower depletion rates. However, the positive were largely offset by lower volumes, lower net stumpage prices, and higher lease and other expenses.

The Pacific Northwest Timber segment reported an operating loss of \$3.6 million as against the operating income of \$1.9 million recorded in third-quarter 2018. This was mainly due to lower net stumpage prices, lesser volumes, and reduced non-timber income.

The New Zealand Timber segment recorded operating income of \$10.1 million, down 38.4% from the year-earlier tally. Results indicate lower net stumpage prices and higher roading costs, partly offset by higher volumes and increased non-timber income.

Real Estate's operating income of \$0.4 million was significantly down from the year-ago figure of \$24.7 million. This was chiefly due to a lower number of acres sold, partially offset by a significant rise in weighted-average prices.

The Trading segment reported break-even results in the quarter, as against operating income of \$0.3 million posted in the year-earlier period. This suggests lower trading margins resulting from lower volumes and prices.

Share Repurchases

During the reported quarter, Rayonier repurchased shares worth \$8.4 million at an average price of \$26.34 per share. Further, the company has a remaining share-buyback authorization of \$90.9 million.

Liquidity

Rayonier ended the third quarter with \$56.9 million in cash and cash equivalents, down from \$148.4 million recorded as of Dec 31, 2018. Total long-term debt was \$973 million, marginally up from \$972.6 million as on Dec 31, 2018.

Outlook

Rayonier's timber segments continue to be affected by challenging export and domestic market conditions. Amid this, the company has tempered its projections for the rest of the year. The company now expects full-year adjusted EBITDA in the lower end of the prior guidance of \$245-\$265 million. Additionally, it anticipates the full-year harvest volumes in the Southern Timber segment to be 6-6.1 million tons. The New Zealand Timber segment is estimated to generate full-year harvest volume between 2.7 million tons and 2.8 million tons. Also, the same in the Pacific Northwest Timber segment is likely to be approximately 1.2 million tons.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-6.63%
EPS Surprise	-100.00%
Quarterly EPS	0.00
Annual EPS (TTM)	0.35

Recent News

Rayonier's Pope Resources Buyout Deal Valued at \$554 Million – Jan 15, 2020

Rayonier has agreed to acquire Pope Resources in a cash-and-stock deal valued at \$554 million, or \$126.91 per unit. The move comes as part of the Rayonier's strategy of adding high-quality timberlands in strong log markets and will enhance the long-term value for shareholders.

The company projects the transaction, which is expected to close by mid-2020, to increase its annual adjusted EBITDA by \$38 million and cash available for distribution by \$25 million over the next five years. Moreover, it is expected to generate accretion to cash available for distribution per share in the first full year.

Per the agreement terms, Pope Resources unitholders will have the right to elect to receive 3.929 Rayonier common shares, 3.929 units of Rayonier Operating Partnership LP, or \$125 in cash in exchange for each unit of Pope Resources, subject to a proration mechanism.

The acquisition seems 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. Moreover, 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.

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. Moreover, 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. Also, 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 Oct 18, Rayonier announced a fourth quarter cash dividend of 27 cents per share on its common stock. This dividend was paid on Dec 31, to its shareholders of record as of Dec 17, 2019.

Valuation

Rayonier shares have been up 10.9% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Construction sector have rallied 32.5% and 35.3% over the past year, respectively.

The S&P 500 Index has been up 25.6% over the past year.

The stock is currently trading at 67.73X forward 12-month price to earnings versus 29.68X for the Zacks sub-industry, 16.11X for the Zacks sector and 19.19X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 80.69X and as low as 33.96X, with a 5-year median of 58.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$34 price target reflects 71.69X 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	67.73	29.68	16.11	19.19
	5-Year High	80.69	29.68	18.83	19.34
	5-Year Low	33.96	16.33	10.63	15.17
	5-Year Median	58.33	23.85	16.11	17.44
P/S F12M	Current	5.46	3.21	1.94	3.57
	5-Year High	6.57	3.23	2.23	3.57
	5-Year Low	4.23	1.42	1.25	2.54
	5-Year Median	5.5	2.66	1.63	3
P/B TTM	Current	2.74	3.13	3.92	4.55
	5-Year High	2.98	3.36	7.22	4.55
	5-Year Low	1.69	1.87	2.19	2.85
	5-Year Median	2.3	2.7	3.41	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 14% (35 out of 254)



Top Peers

Gladstone Land Corporation (LAND)	Outperform
CatchMark Timber Trust, Inc. (CTT)	Neutral
EPR Properties (EPR)	Neutral
Innovative Industrial Properties, Inc. (IIPR)	Neutral
Potlatch Corporation (PCH)	Neutral
Weyerhaeuser Company (WY)	Neutral
Farmland Partners Inc. (FPI)	Underperform
Safehold Inc. (SAFE)	Underperform

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	RYN Neutral	X Industry	S&P 500	CTT Neutral	PCH Neutral	WY Neutral
VGM Score	D	-	-	C	F	D
Market Cap	4.15 B	2.97 B	24.65 B	549.86 M	3.00 B	23.08 B
# of Analysts	3	3	13	3	3	3
Dividend Yield	3.36%	0.83%	1.73%	4.81%	3.58%	4.39%
Value Score	D	-	-	F	C	D
Cash/Price	0.01	0.03	0.04	0.00	0.03	0.01
EV/EBITDA	15.87	14.47	14.11	-12.63	14.47	17.43
PEG Ratio	NA	1.60	2.08	NA	NA	NA
Price/Book (P/B)	2.74	2.71	3.39	2.68	2.43	2.68
Price/Cash Flow (P/CF)	16.84	13.33	13.81	NA	13.07	16.86
P/E (F1)	68.49	18.27	19.19	NA	42.82	39.47
Price/Sales (P/S)	5.94	1.59	2.69	5.47	3.57	3.48
Earnings Yield	1.46%	4.25%	5.21%	-1.52%	2.33%	2.55%
Debt/Equity	0.64	0.58	0.72	2.22	0.58	0.72
Cash Flow (\$/share)	1.91	2.88	6.94	-1.96	3.42	1.84
Growth Score	F	-	-	A	F	D
Hist. EPS Growth (3-5 yrs)	6.09%	6.86%	10.56%	NA	8.77%	-6.03%
Proj. EPS Growth (F1/F0)	10.94%	27.44%	7.57%	90.86%	42.27%	91.46%
Curr. Cash Flow Growth	17.32%	11.42%	14.73%	-710.69%	68.82%	-1.15%
Hist. Cash Flow Growth (3-5 yrs)	-11.46%	13.20%	9.00%	NA	16.50%	4.11%
Current Ratio	1.27	1.80	1.24	0.90	1.61	1.55
Debt/Capital	39.10%	37.90%	42.99%	68.99%	36.70%	41.70%
Net Margin	6.47%	2.67%	11.14%	-119.09%	5.48%	-2.33%
Return on Equity	2.82%	4.36%	17.16%	-48.74%	3.60%	3.78%
Sales/Assets	0.25	1.08	0.55	0.13	0.37	0.39
Proj. Sales Growth (F1/F0)	5.28%	6.88%	4.16%	1.74%	8.48%	3.86%
Momentum Score	A	-	-	D	D	B
Daily Price Chg	-1.53%	-0.89%	0.27%	-0.18%	-0.84%	-1.02%
1 Week Price Chg	-0.65%	0.27%	0.39%	-3.35%	1.67%	0.44%
4 Week Price Chg	-0.43%	3.57%	2.95%	-2.69%	2.03%	3.23%
12 Week Price Chg	10.38%	7.26%	7.76%	-2.60%	3.71%	6.31%
52 Week Price Chg	10.83%	31.22%	22.29%	32.16%	27.88%	25.73%
20 Day Average Volume	372,717	367,304	1,536,375	176,880	274,537	2,772,777
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	5.19%	1.46%	0.00%	0.00%	1.62%	1.29%
(F1) EPS Est 12 week change	-2.74%	-2.32%	-0.40%	20.00%	0.00%	-8.45%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-7.69%

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	A
VGM Score	D

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.