

Weyerhaeuser Company (WY)

\$25.98 (As of 02/28/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: A

Summary

Weyerhaeuser's shares have underperformed its industry so far this year. The trend is expected to continue in the near term, courtesy of lower-than-expected fourth-quarter 2019 earnings due to lower realizations in lumber and OSB, tighter margins in engineered wood, higher variable comp expense and a less favorable tax rate. Additionally, the company's view on timber harvest and Real Estate EBITDA for 2020 is not encouraging. However, U.S. housing recovery and wood products price improvement are showing signs of hope. Again, the company's focus on operational excellence is expected to drive growth. In 2019, it recorded the highest ever EBITDA from the real estate energy and natural resources business, strategically optimized portions of the Northern timberlands portfolio and returned more than \$1 billion cash to its shareholders.

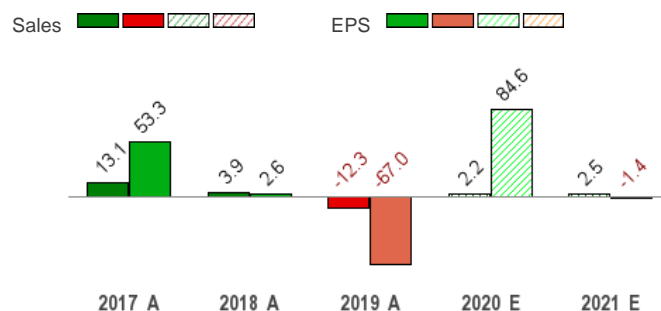
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.58 - \$22.35
20 Day Average Volume (sh)	4,203,141
Market Cap	\$19.4 B
YTD Price Change	-14.0%
Beta	1.69
Dividend / Div Yld	\$1.36 / 5.2%
Industry	Building Products - Wood
Zacks Industry Rank	Bottom 37% (161 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-57.1%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-8.9%
Expected Report Date	04/24/2020
Earnings ESP	12.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,733 E	1,769 E	1,736 E	1,628 E	6,866 E
2020	1,677 E	1,727 E	1,700 E	1,596 E	6,700 E
2019	1,643 A	1,692 A	1,671 A	1,548 A	6,554 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.23 E	\$0.25 E	\$0.19 E	\$0.18 E	\$0.71 E
2020	\$0.13 E	\$0.24 E	\$0.24 E	\$0.19 E	\$0.72 E
2019	\$0.11 A	\$0.16 A	\$0.08 A	\$0.03 A	\$0.39 A

*Quarterly figures may not add up to annual.

P/E TTM	68.4
P/E F1	36.6
PEG F1	7.3
P/S TTM	3.0

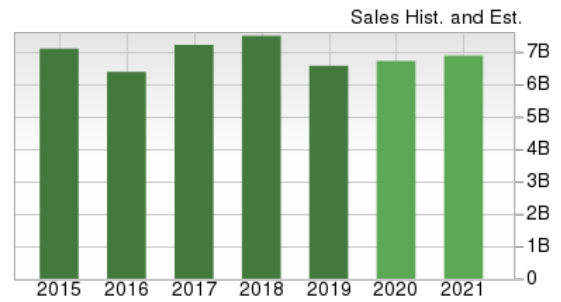
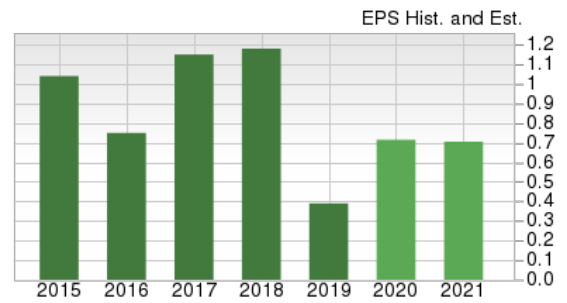
The data in the charts and tables, except sales and EPS estimates, is as of 02/28/2020. The reports text and the analyst-provided sales and EPS estimates are as of 03/02/2020.

Overview

Based in Washington, **Weyerhaeuser Company** is one of the leading U.S. forest product companies with operations primarily concentrated in Southern California, Nevada, Washington, Texas, Maryland and Virginia. The company caters to a diverse clientele spread over the United States, Canada, Japan, Europe and other regions. The company grows and harvests trees, builds homes and manufactures forest products worldwide, primarily to be used as lumber, pulp and paper, and other wood and building products. It offers logs, hardwood lumber, timber, poles and plywood, as well as minerals, oil, gas, seeds and seedlings.

The company operates through three business segments including:

- The **Timberlands** segment (contributing 24.7% to 2019 revenues) is engaged in the sale of logs, stumpage and pay-as-cut timber.
- The **Wood Products** segment (70.5%) deals with the sale of plywood, softwood lumber, engineered wood products, oriented strand board (OSB), fiberboard and building materials distribution.
- The **Real Estate, Energy and Natural Resources** segment (4.8%) deals with the results from an equity interest in Plum Creek Real Estate development joint ventures. Also, the segment is responsible for disposition of properties, non-core timberlands, and royalties related to minerals and oil and gas assets.



Reasons To Sell:

- ▼ **Dismal Performance Across the Board:** Weyerhaeuser has been generating dismal earnings and revenues owing to challenging market conditions. In 2019, the company's earnings (before special items) significantly declined to 39 cents from \$1.18 per share a year ago. Revenues also declined 12.3% year over year. The company's top line missed analysts' expectations in four of the trailing six quarters. It has been facing volatility in various markets served and weather-related challenges.

Precisely, the company has been reporting weak sales owing to lower contribution from Timberlands and Wood Products. During 2019, sales (excluding inter-segment sales) in Timberlands (accounting for 24.7% of 2019 total sales) declined 13.6% from the comparable year-ago figure. Again, Wood Products' (contributing 70.5% to total sales) sales declined 12.7% year over year during the period, mainly due to decreased sales realizations and reduced sales volumes across majority of its product lines.

- ▼ **Currency Headwind & Stiff Competition:** Weyerhaeuser is exposed to risks from unfavorable movement of foreign currencies. Also, any economic unrest in countries served by Weyerhaeuser, especially China and Japan, will adversely impacts the company's export business.

Also, the company faces stiff competition from North American and global producers who have greater financial resources and lower production costs. Shares of the company also fell 14% in year-to-date basis, comparing unfavorably with the industry's 9% decline. Estimates for 2020 have also declined 5.3% in the past 30 days, reflecting analysts' concern over the company's earnings growth potential.

- ▼ **Dependence on Housing Market:** The company's Timberlands and Wood Products segments are highly dependent on the U.S. housing market. Any untoward situation influencing the construction and housing sectors will impact the company's financials. Although the U.S. housing market has depicted significant improvement since the beginning of 2019 and the company expects positive momentum in the single-family housing market to continue in the next year, several supply-side headwinds for housing remain. Builders continue to face a series of challenges including labor and lot unavailability, and regulatory burdens as they seek to bring affordable housing to market. Additionally, there is a degree of uncertainty regarding the outlook for U.S. economic growth that could impact buyer sentiment.
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Weyerhaeuser faces near-term headwinds from volatile wood products markets, adverse foreign currency movements, uncertain economic conditions and stiff market competition

Risks

- **Underlying Positive Housing Fundamentals Bode Well:** Declining mortgage rates and moderate home prices have been driving the U.S. housing industry. Overall housing market fundamentals, comprising steady job and wage growth, a recovering economy, positive builder sentiments, rapidly increasing household formation and a limited supply of inventory point toward continually strong demand.

The company is expected to reap benefits from strengthening housing-market conditions in the United States. Weyerhaeuser predicts housing starts (single family) to grow slightly above 1.3 million in 2020, with the improvement likely to be driven primarily by increased single-family activity. It expects continued modest growth in U.S. housing activity to favor the company to drive growth. Also, it believes that higher demand for repair and remodeling activities, as well as housing market rebound will be beneficial for the company.

- **Operational Excellence Initiatives:** Weyerhaeuser's focus on operational excellence has been advantageous over time. It remains focused on operational excellence that includes merchandising for value, harvest and transportation efficiencies, along with flexing harvest to capture seasonal and short-term opportunities. The company reaped more than \$100 million benefits, collectively from Timberlands and Wood Products businesses, owing to operational excellence improvements in 2019. This initiative led to more than \$0.5 billion of company-wide margin improvement from 2014 through 2019.

In Timberlands, it achieved \$48 million of improvements in 2019, well within its \$40-\$50 million target, for a cumulative total of \$262 million since the initiation of the plan. This was primarily attributed to initiatives to further optimize silviculture, forestry and road activities, reduce costs, and improve log merchandising and marketing to maximize revenues from every log the company harvests. In Wood Products, the company captured \$52 million of improvements. The 2019 improvements in Wood Products came from its three primary initiatives: reducing unit manufacturing cost for Lumber and Oriented Strand Board, improving product mix in Lumber and distribution, and increasing log recovery across the mill system.

In 2020, Weyerhaeuser anticipates \$50-\$70 million of additional operational excellence improvements. Key focus areas include improving the productivity of harvesting and hauling operations, reducing road cost, optimizing forestry spending and maximizing revenues from every log Weyerhaeuser harvest.

- **Shareholder-Friendly Approach:** Weyerhaeuser is committed to rewarding its shareholders through dividend payments and share buybacks. In 2019, the company returned in excess of \$1 billion in cash to its shareholders through dividends and share repurchases, and initiated a series of actions that reduced pension liabilities by more than \$1.5 billion. We believe such disbursements are reflective of its strong cash position and sound capital allocation policy.
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Last Earnings Report

Weyerhaeuser's Q4 Earnings Miss, Sales Beat Estimates

Weyerhaeuser Company reported mixed fourth-quarter 2019 results, with earnings missing the Zacks Consensus Estimate, while net sales beating the same.

The company reported adjusted earnings of 3 cents per share, which missed the consensus mark of 7 cents by 57.1% and declined 70% from the year-ago figure of 10 cents.

Net sales during the quarter amounted to \$1,548 million, beating the consensus mark of \$1,524 million by 1.6%. However, the reported figure fell 5.4% from \$1,636 million reported in the prior-year quarter. Its two major segments reported significantly lower net sales on a year-over-year basis.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	1.58%
EPS Surprise	-57.14%
Quarterly EPS	0.03
Annual EPS (TTM)	0.38

Segments Details

The company currently operates through three business segments —Timberlands; Real Estate, Energy and Natural Resources; and Wood Products.

Timberlands' net sales (including inter-segment sales of \$122 million) during the quarter came in at \$510 million, down 11.5% from the year-ago figure of \$576 million. Lower average log sales realizations and fee harvest volumes in the South, as well as seasonally lower Western road and forestry spending caused the decline.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) came in at \$158 million, down 16% from \$188 million in the year-ago quarter.

Net sales in Real Estate, Energy and Natural Resources amounted to \$46 million, down 54.9% from \$102 million reported in the prior-year quarter. Adjusted EBITDA also fell 58.9% to \$37 million from \$90 million in the year-ago quarter. Earnings and adjusted EBITDA registered a fall due to fewer real estate sales, and lower construction materials and energy royalties in the Energy & Natural Resources business.

Sales in the Wood Products segment totaled \$1,115 million, up 2.6% from \$1,087 million in the prior-year quarter. Adjusted EBITDA came in at \$110 million, up 66.7% from the year-ago figure of \$66 million.

Operating Highlights

During the quarter, gross profit plunged more than 15% to \$247 million from \$291 million in the prior-year quarter. Adjusted EBITDA was \$260 million in the quarter, down nearly 25% from \$346 million in the year-ago quarter.

Financial Highlights

As of Dec 31, 2019, Weyerhaeuser had cash and cash equivalents of \$139 million, down from \$334 million at 2018-end. Long-term debt was \$6,147 million versus \$5,419 million at the end of 2018.

Net cash from operations was \$966 million at the end of 2019, down from \$1,112 million at 2018-end.

2019 Highlights

In 2019, total revenues were \$6,554 million, down 12.3% year over year. Adjusted earnings were reported at 39 cents, down from the year-ago figure of \$1.18 per share. Adjusted EBITDA was reported at \$1,276 in 2019, down 37.2% from \$2,032 in 2018. The company's performance was significant impacted by a sluggish housing market, global trade uncertainty and challenges in commodity prices.

Q1 2020 Outlook

For the first quarter, the company expects sequentially higher earnings and adjusted EBITDA in the Timberland segment. Geographically, in the West, the company expects higher domestic and export log sales volumes, moderate average domestic log sales realizations and lower road spending. In the South, the company anticipates lower fee harvest volumes and comparable average log sales realizations.

In the Real Estate, Energy and Natural Resources segment, Weyerhaeuser anticipates significantly higher earnings and adjusted EBITDA than fourth-quarter levels. For 2020, the segment's adjusted EBITDA is estimated to be \$255 million, including the effect of fewer available real estate acres post divestitures of Montana and Michigan timberlands.

In the Wood Products segment, the company predicts earnings and adjusted EBITDA (before any improvement in average sales realizations) to be slightly higher than fourth-quarter levels. Weyerhaeuser expects seasonally improved operating rates and manufacturing costs for engineered wood products, along with slightly higher sales volumes for lumber and oriented strand board.

Valuation

Weyerhaeuser's shares are down 14% in the year-to-date period, but up 8.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 9% and 8.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 13% and 10.5%, respectively.

The S&P 500 index is down 8% in the year-to-date period but up 7.1% in the past year.

The stock is currently trading at 36.42X forward 12-month earnings, which compares to 26.81X for the Zacks sub-industry, 14.27X for the Zacks sector and 16.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 74.88X and as low as 15.35X, with a 5-year median of 27.25X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$22 price target reflects 30.98X forward 12-month earnings.

The table below shows summary valuation data for WY.

Valuation Multiples - WY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	36.42	26.81	14.27	16.89
	5-Year High	74.88	29.92	18.86	19.34
	5-Year Low	15.35	17.17	10.71	15.18
	5-Year Median	27.25	24.07	15.94	17.44
P/S F12M	Current	2.88	2.8	1.75	3.12
	5-Year High	3.96	3.18	2.23	3.43
	5-Year Low	1.44	1.4	1.25	2.54
	5-Year Median	3.17	2.66	1.65	3.01
EV/EBITDA TTM	Current	16.67	18.92	19.58	12
	5-Year High	24.47	23.23	22.6	12.87
	5-Year Low	10.37	10.07	14.3	8.48
	5-Year Median	16.3	15.41	19.38	10.78

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (161 out of 254)



Top Peers

Louisiana-Pacific Corporation (LPX)	Outperform
Boise Cascade, L.L.C. (BCC)	Neutral
Floor & Decor Holdings, Inc. (FND)	Neutral
JELD-WEN Holding, Inc. (JELD)	Neutral
Norbord Inc. (OSB)	Neutral
Trex Company, Inc. (TREX)	Neutral
Universal Forest Products, Inc. (UFPI)	Neutral
Potlatch Corporation (PCH)	Underperform

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	WY Underperform	X Industry	S&P 500	FND Neutral	LPX Outperform	TREX Neutral
VGM Score	F	-	-	D	B	C
Market Cap	19.37 B	2.32 B	21.48 B	5.16 B	3.19 B	5.64 B
# of Analysts	4	3	13	12	4	8
Dividend Yield	5.23%	0.83%	2.07%	0.00%	2.04%	0.00%
Value Score	F	-	-	D	B	F
Cash/Price	0.01	0.03	0.04	0.00	0.05	0.02
EV/EBITDA	37.59	18.76	12.57	26.24	31.10	28.66
PEG Ratio	7.43	1.56	1.84	1.42	NA	3.25
Price/Book (P/B)	2.37	2.29	2.88	6.75	3.22	12.56
Price/Cash Flow (P/CF)	24.35	18.90	11.58	26.55	19.89	35.14
P/E (F1)	37.15	15.76	16.87	36.60	15.76	32.45
Price/Sales (P/S)	2.96	1.95	2.34	2.52	1.38	7.57
Earnings Yield	2.73%	3.08%	5.91%	2.72%	6.33%	3.08%
Debt/Equity	0.75	0.61	0.70	1.29	0.39	0.08
Cash Flow (\$/share)	1.07	1.90	6.94	1.92	1.43	2.72
Growth Score	D	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	-9.67%	6.86%	10.85%	NA	13.59%	33.97%
Proj. EPS Growth (F1/F0)	83.33%	26.61%	6.79%	21.30%	387.84%	19.33%
Curr. Cash Flow Growth	-42.27%	-29.50%	5.92%	30.45%	-67.52%	1.83%
Hist. Cash Flow Growth (3-5 yrs)	-8.57%	14.03%	8.38%	48.52%	32.59%	19.33%
Current Ratio	1.60	1.70	1.23	1.27	2.54	3.85
Debt/Capital	42.91%	38.76%	42.53%	56.35%	28.45%	7.08%
Net Margin	-1.16%	1.62%	11.57%	7.36%	-0.22%	19.42%
Return on Equity	3.32%	3.79%	16.80%	17.33%	3.79%	36.01%
Sales/Assets	0.39	1.00	0.54	0.98	1.15	1.33
Proj. Sales Growth (F1/F0)	2.23%	4.51%	4.07%	22.92%	15.11%	14.57%
Momentum Score	A	-	-	B	B	C
Daily Price Chg	-1.48%	-1.48%	-1.44%	-3.48%	-2.17%	-3.01%
1 Week Price Chg	0.23%	0.88%	-0.94%	8.55%	-0.56%	4.33%
4 Week Price Chg	-13.60%	-10.69%	-10.98%	0.61%	-7.72%	-2.94%
12 Week Price Chg	-11.18%	-4.01%	-7.84%	8.00%	-2.70%	11.56%
52 Week Price Chg	4.38%	3.25%	1.20%	37.31%	12.58%	27.62%
20 Day Average Volume	4,203,141	366,573	2,169,477	1,139,072	1,381,456	575,688
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.33%	0.00%	0.38%
(F1) EPS Est 4 week change	-8.92%	0.00%	-0.09%	4.10%	3.44%	0.38%
(F1) EPS Est 12 week change	-7.74%	0.00%	-0.24%	4.10%	4.03%	0.48%
(Q1) EPS Est Mthly Chg	-25.93%	-30.77%	-0.72%	9.78%	-28.21%	-14.45%

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	F
Growth Score	D
Momentum Score	A
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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