

Weyerhaeuser Company (WY)

\$29.44 (As of 01/03/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Weyerhaeuser's shares have underperformed its industry in the past year. It is struggling with unfavorable average sales realizations for lumber and OSB, lower volumes and operating rates for lumber as well as engineered wood products, along with higher unit manufacturing costs. In the fourth quarter of 2019, the company is expected to have generated sequentially lower earnings at the Wood Products segment. Nonetheless, the company's focus on operational excellence and improving housing market fundamentals is likely to drive performance. Meanwhile, improving housing market fundamentals are expected to drive growth. Bottom-line estimates for 2020 have been trending upward over the past 60 days, depicting analysts' optimism surrounding the company's earnings growth potential.

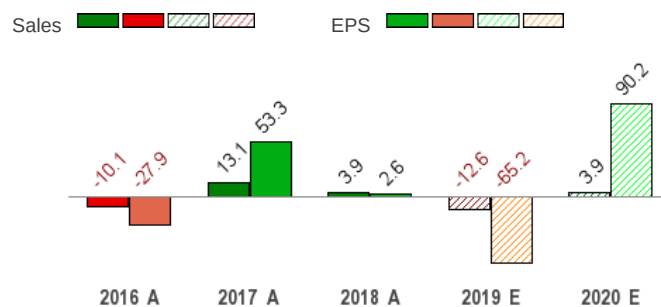
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.28 - \$22.35
20 Day Average Volume (sh)	2,972,001
Market Cap	\$21.9 B
YTD Price Change	-2.5%
Beta	1.65
Dividend / Div Yld	\$1.36 / 4.6%
Industry	Building Products - Wood
Zacks Industry Rank	Bottom 25% (189 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	01/31/2020
Earnings ESP	14.3%
P/E TTM	65.4
P/E F1	37.7
PEG F1	7.6
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,627 E	1,737 E	1,751 E	1,678 E	6,793 E
2019	1,643 A	1,692 A	1,671 A	1,530 E	6,536 E
2018	1,865 A	2,065 A	1,910 A	1,636 A	7,476 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.19 E	\$0.25 E	\$0.24 E	\$0.22 E	\$0.78 E
2019	\$0.11 A	\$0.16 A	\$0.08 A	\$0.07 E	\$0.41 E
2018	\$0.36 A	\$0.44 A	\$0.28 A	\$0.10 A	\$1.18 A

*Quarterly figures may not add up to annual.

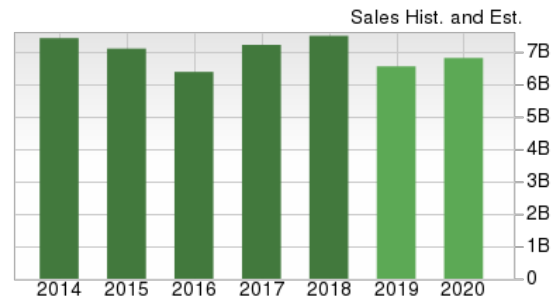
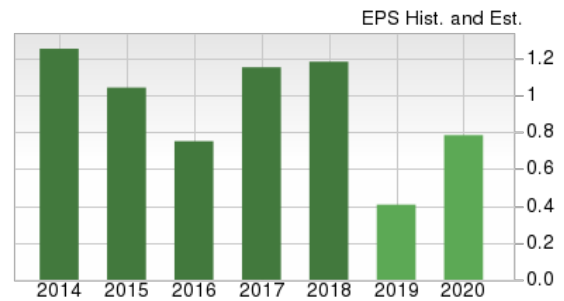
The data in the charts and tables, except sales and EPS estimates, is as of 01/03/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/06/2020.

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 23.8% to third-quarter 2019 revenues) is engaged in the sale of logs, stumpage and pay-as-cut timber.
- The **Wood Products** segment (72.1%) 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 (4.1%) 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 Buy:

- ▲ **Underlying Positive Housing Fundamentals Bode Well:** The U.S. housing market started building up strength since the beginning of 2019, after a torrid second-half 2018. Declining mortgage rates and moderate home prices have been adding strength to the housing industry.

Overall fundamentals of the housing market are expected to improve in 2019. Steady job and wage growth, a recovering economy, positive builder sentiment, rapidly increasing household formation and a limited supply of inventory — all point toward continually strong demand.

The company is expected to reap benefits from strengthening housing-market conditions in the United States. Repair and remodeling activity, which drives about 40% of lumber demand, is expected to rise 6-7% in 2019. Weyerhaeuser predicts housing starts (single-family) to grow slightly below 1.3 million in 2019, with the improvement likely to be driven primarily by increased single-family activity.

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 \$44-million benefits, collectively from Timberlands and Wood Products businesses, owing to operational excellence improvements in 2018. This brings it to more than \$540 million of total improvement since Weyerhaeuser began the program five years ago.

In Timberlands, it achieved \$42 million of improvements in 2018, well within its \$40-\$50 million target, for a cumulative total of \$214 million since the initiation of the plan. In 2018, the improvements in timberlands were attributable to the initiatives for reducing logging and hauling costs, and improved log merchandizing and marketing to maximize revenues from every log it harvests.

In Wood Products, the company faced operational excellence challenges in 2018. Although the business achieved \$329 million of cumulative improvements, it delivered just \$2 million of the improvement in 2018.

In 2019, Weyerhaeuser anticipates \$80-\$100 million of additional operational excellence improvements. This includes \$40-\$50 million from Timberlands and \$40-\$50 million from Wood Products.

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 2018, the company returned nearly \$1.4 billion in cash to shareholders through dividends and share repurchases, and initiated a series of actions that reduced pension liabilities by more than \$2 billion. We believe such disbursements are reflective of its strong cash position and sound capital allocation policy.
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Strengthening housing market of the United States will benefit Weyerhaeuser's businesses. Also, the company remains committed toward rewarding its shareholders handsomely.

Reasons To Sell:

▼ **Dismal Performance Across the Board:** Weyerhaeuser has been generating dismal earnings and revenues owing to challenging market conditions. During the first nine months of 2019, the company's earnings (before special items) significantly declined to 36 cents from \$1.08 per share a year ago. Revenues also declined 14.3% year over year during the said period. In fact, the company's top line missed analysts' expectations in four of the trailing five quarters. It has been facing volatility in various markets served and weather-related challenges.

Evidently, shares of Weyerhaeuser have underperformed its industry in a year.

Weyerhaeuser faces near-term headwinds from volatile wood products markets, adverse foreign currency movements, uncertain economic conditions and stiff market competition

▼ **Lower Profits in Wood Products & Timberlands:** The company has been reporting weak sales owing to lower contribution from Timberlands and Wood Products. During the first nine months of 2019, sales (excluding inter-segment sales) in Timberlands (accounting for 23.8% of total sales) declined 13.7% from the comparable year-ago figure, primarily attributable to decreased Western log sales realizations and sales volumes. Again, Wood Products' (contributing 72.1% to total sales) sales declined 16.7% during the period, mainly due to decreased sales realizations and reduced sales volumes across majority of its product lines.

For the fourth quarter, the company expects sequentially comparable earnings but marginally lower adjusted EBITDA at the Timberland segment. For the Wood Products segment, it predicts earnings (before special items) and adjusted EBITDA to be down on a sequential basis but up on a year-over-year basis. Weyerhaeuser expects seasonally lower sales volumes across most product categories, higher Western log costs and a modest improvement in other operating costs.

▼ **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 impact 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.

▼ **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.

Last Earnings Report

Weyerhaeuser's Q3 Earnings Miss Estimates, Sales Beat

Weyerhaeuser Company reported mixed third-quarter 2019 results, wherein earnings missed the Zacks Consensus Estimate, while net sales beat the same.

The company's reported earnings (before special items) of 8 cents missed the consensus mark of 10 cents by 20%. Moreover, the bottom line was significantly down from the year-ago figure of 28 cents.

Net sales during the quarter came in at \$1,671 million, beating the consensus mark of \$1,665 million by 0.4%. However, the reported figure was down 12.5% from \$1,910 million in the prior-year quarter. Its two major segments reported significantly lower net sales on a year-over-year basis.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	0.36%
EPS Surprise	-20.00%
Quarterly EPS	0.08
Annual EPS (TTM)	0.45

Segments Details

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

Timberlands' net sales (including inter-segment sales of \$125 million) during the quarter came in at \$523 million, declining 10.9% from the year-ago figure of \$587 million. Lower average sales realizations for domestic and export logs, and seasonally lower domestic sales volumes in the West led to the decline. Average sales realizations also decreased sequentially in the South.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) came in at \$154 million, reflecting a decline of 25.2% from \$206 million a year ago.

Net sales in Real Estate, Energy and Natural Resources were \$69 million, decreasing 28.1% from \$96 million reported in the year-ago period. Adjusted EBITDA also declined 30.2% to \$60 million from \$86 million a year ago.

Sales in the Wood Products segment totaled \$1,204 million, representing a decrease of 11.1% from \$1,355 million in the prior-year quarter. Adjusted EBITDA came in at \$123 million, decreasing 50.8% from the year-ago figure of \$250 million.

Operating Highlights

During the quarter, gross profit plunged more than 40% to \$272 million from \$458 million a year ago. Adjusted EBITDA was \$308 million in the quarter, decreasing 39% from \$505 million a year ago.

Financial Highlights

As of Sep 30, 2019, Weyerhaeuser had cash and cash equivalents of \$153 million, down from \$334 million at 2018-end. Long-term debt was \$6,150 million versus \$5,419 million at the end of 2018.

In the reported quarter, cash provided from operating activities was \$292 million versus \$87 million a year ago.

Q4 Guidance

For the fourth quarter, the company expects sequentially comparable earnings but marginally lower adjusted EBITDA at the Timberland segment.

Geographically, in the West, the company expects seasonally lower road and unit logging costs, and moderately higher average domestic sales realizations to be partially offset by reduced log sales volumes. In the South, the company anticipates lower fee harvest volumes and a slight decline in average log sales realizations.

In the Real Estate, Energy and Natural Resources segment, it anticipates sequentially lower earnings and adjusted EBITDA for the fourth quarter. For full-year 2019, the segment's adjusted EBITDA is expected to be \$270 million.

In the Wood Products segment, it predicts earnings (before special items) and adjusted EBITDA to be down on a sequential basis but up on a year-over-year basis. Weyerhaeuser expects seasonally lower sales volumes across most product categories, higher Western log costs and a modest improvement in other operating costs.

Recent News

Weyerhaeuser to Sell Montana Timberland, Optimize Portfolio - Dec 17, 2019

Weyerhaeuser Company has inked a deal with a private timberland investment company to sell its 630,000 acres of Montana timberland for \$145 million in cash. This divestiture is part of the company's ongoing initiatives to strategically optimize the timberlands portfolio.

The transaction, which is slated to close in second-quarter 2020, is subject to customary closing conditions. The deal includes a diverse mix of softwood species and an existing 110,000-acre conservation easement that preserves public access in perpetuity. The company expects minimal tax liability related to the transaction.

Valuation

Weyerhaeuser shares are up 25.4% in trailing 12-month. Over the past year, the Zacks sub-industry and Zacks Construction sector are up 30.5% and 33.1%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 37.63X forward 12-month price to earnings, which compares to 28.18X for the Zacks sub-industry, 15.75X for the Zacks sector and 18.7X 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 26.97X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$31 price target reflects 39.74X 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	37.63	28.18	15.75	18.7
	5-Year High	74.88	29.32	18.83	19.34
	5-Year Low	15.35	16.33	10.63	15.17
	5-Year Median	26.97	23.35	16.1	17.44
P/S F12M	Current	3.23	3.05	1.91	3.47
	5-Year High	3.96	3.23	2.23	3.47
	5-Year Low	1.44	1.42	1.25	2.54
	5-Year Median	3	2.65	1.63	3
EV/EBITDA TTM	Current	16.12	15.53	18.97	12.01
	5-Year High	24.47	23.4	22.53	12.86
	5-Year Low	10.37	10.21	14.4	8.49
	5-Year Median	16.15	15.53	19.4	10.66

As of 01/03/2019

Industry Analysis Zacks Industry Rank: Bottom 25% (189 out of 252)



Top Peers

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

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	WY Neutral	X Industry	S&P 500	FND Neutral	LPX Neutral	TREX Neutral
VGM Score	D	-	-	B	B	C
Market Cap	21.94 B	2.87 B	23.66 B	5.08 B	3.49 B	5.17 B
# of Analysts	3	3	13	11	4	7
Dividend Yield	4.62%	0.84%	1.79%	0.00%	1.82%	0.00%
Value Score	D	-	-	D	A	F
Cash/Price	0.01	0.03	0.04	0.02	0.09	0.03
EV/EBITDA	16.75	12.94	13.88	33.05	5.41	26.24
PEG Ratio	7.55	1.59	1.99	1.59	NA	3.02
Price/Book (P/B)	2.55	2.67	3.36	7.02	3.03	12.22
Price/Cash Flow (P/CF)	16.02	11.25	13.62	32.90	8.12	33.43
P/E (F1)	37.74	18.08	18.74	37.43	18.08	30.21
Price/Sales (P/S)	3.30	1.48	2.67	2.60	1.48	7.18
Earnings Yield	2.65%	4.41%	5.32%	2.67%	5.51%	3.31%
Debt/Equity	0.72	0.58	0.72	1.27	0.31	0.08
Cash Flow (\$/share)	1.84	2.88	6.94	1.53	3.66	2.65
Growth Score	D	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	-6.03%	6.86%	10.56%	NA	37.83%	33.97%
Proj. EPS Growth (F1/F0)	92.42%	26.55%	7.41%	21.58%	308.70%	22.57%
Curr. Cash Flow Growth	-1.15%	11.42%	14.83%	40.84%	11.42%	41.62%
Hist. Cash Flow Growth (3-5 yrs)	4.11%	13.20%	9.00%	NA	18.58%	19.33%
Current Ratio	1.55	1.80	1.23	1.31	3.52	3.52
Debt/Capital	41.70%	37.90%	42.92%	55.97%	24.47%	7.77%
Net Margin	-2.33%	2.67%	11.08%	6.81%	2.67%	18.65%
Return on Equity	3.78%	4.36%	17.10%	17.58%	4.93%	35.80%
Sales/Assets	0.39	1.08	0.55	1.08	1.08	1.37
Proj. Sales Growth (F1/F0)	3.93%	5.04%	4.20%	24.33%	15.30%	15.16%
Momentum Score	B	-	-	D	C	D
Daily Price Chg	0.17%	-0.14%	-0.61%	-0.65%	-0.44%	-1.84%
1 Week Price Chg	-0.56%	0.16%	0.13%	-1.10%	1.05%	2.95%
4 Week Price Chg	0.65%	0.35%	2.60%	6.24%	1.74%	3.45%
12 Week Price Chg	10.43%	12.46%	8.87%	4.10%	22.53%	0.17%
52 Week Price Chg	32.26%	36.32%	29.34%	91.17%	37.22%	45.94%
20 Day Average Volume	2,972,001	371,532	1,603,615	892,029	1,212,063	354,489
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.24%
(F1) EPS Est 4 week change	0.97%	0.05%	0.00%	0.27%	0.77%	0.10%
(F1) EPS Est 12 week change	-8.75%	-5.32%	-0.57%	-2.25%	-13.19%	2.00%
(Q1) EPS Est Mthly Chg	-5.13%	0.00%	0.00%	-2.17%	0.00%	-1.10%

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	D
Momentum Score	B
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

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