

Weyerhaeuser Company (WY)

\$29.20 (As of 08/12/20)

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

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: A

Summary

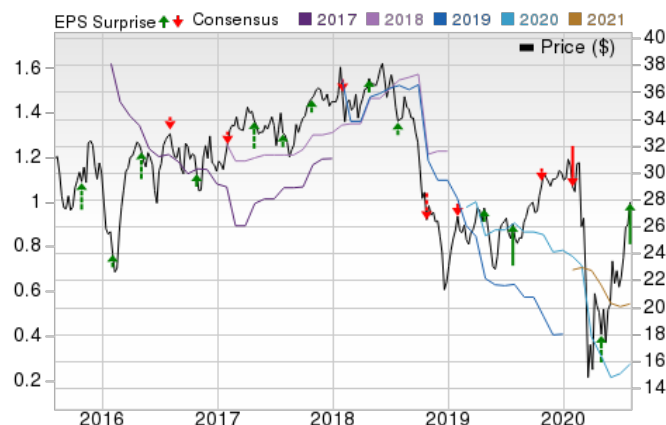
Weyerhaeuser's second-quarter 2020 earnings and revenues topped the respective Zacks Consensus Estimate by a whopping 1000% and 23.5% despite COVID-19-led disruptions. Adjusted EBITDA grew 12.5% for the quarter, buoyed by operational excellence efforts and improving market conditions. Initiatives to boost financial flexibility enabled it to generate solid cash flow and strengthen the balance sheet. Again, U.S. housing and repair/remodel market recovery is showing signs of hope. However, jump in new COVID-19 cases, uncertainty on the duration of the pandemic and its impact on the economy are risks. It expects sequentially lower Q3 timberland profits due to reduced harvesting, pressure on export log markets, and seasonal cost pressure from higher forestry and hauling costs. Weyerhaeuser's shares have underperformed the industry year to date.

Data Overview

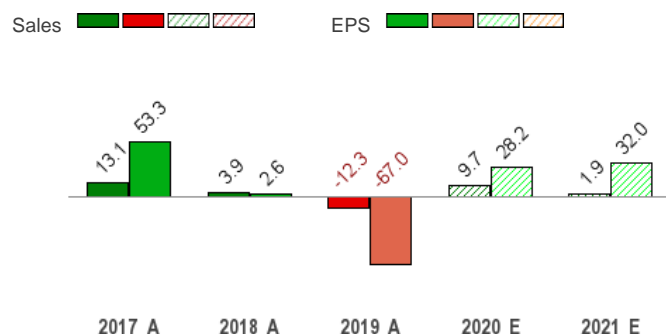
52 Week High-Low	\$31.58 - \$13.10
20 Day Average Volume (sh)	5,214,943
Market Cap	\$21.8 B
YTD Price Change	-3.3%
Beta	1.95
Dividend / Div Yld	\$1.02 / 3.5%
Industry	Building Products - Wood
Zacks Industry Rank	Top 1% (3 out of 253)

Last EPS Surprise	1,000.0%
Last Sales Surprise	23.5%
EPS F1 Est- 4 week change	107.6%
Expected Report Date	10/23/2020
Earnings ESP	0.0%
P/E TTM	73.0
P/E F1	58.4
PEG F1	11.7
P/S TTM	3.3

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,849 E	1,928 E	1,840 E	1,711 E	7,328 E
2020	1,728 A	1,631 A	2,052 E	1,779 E	7,190 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	\$0.22 E	\$0.20 E	\$0.16 E	\$0.14 E	\$0.66 E
2020	\$0.18 A	\$0.11 A	\$0.29 E	\$0.15 E	\$0.50 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.

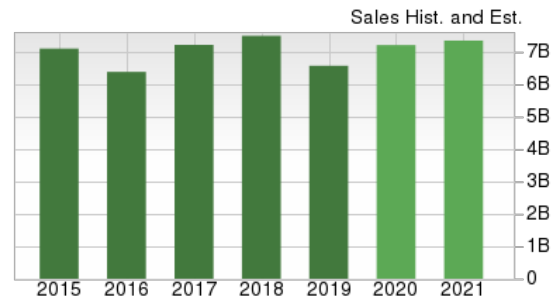
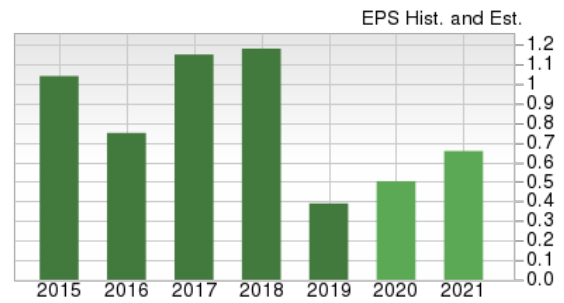
The data in the charts and tables, except sales and EPS estimates, is as of 08/12/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/13/2020.

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 Buy:

▲ **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.

Operational Excellence initiatives, stable balance sheet & recovery of the U.S. housing market will benefit Weyerhaeuser's businesses

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.

▲ **Stable Balance Sheet:** The company's cash and cash equivalents at the end of second-quarter 2020 was \$643 million, down from \$1,458 million at first quarter-end. During the second quarter, it repaid its revolver balance (\$550 million), redeemed the majority of 2021 debt maturities (\$569 million) and earmarked cash for the remainder of 2021 notes. Its total debt to total capital decreased to 43.4% in the second quarter from 46% at first quarter-end. Additionally, it intends to repay \$150 million, 9% note when it matures in the fourth quarter of 2021. At second quarter-end, Weyerhaeuser had the full \$1.5 billion capacity available on its revolver, without any short-term obligation.

Cash from operations for the second quarter was \$391 million, up sequentially by \$305 million.

Notably, its "Times Interest Earned" ratio of 2 reflects a sequential improvement from 1.9. This shows that Weyerhaeuser is well positioned to meet debt obligations. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on the current income.

▲ **Strong First-Half 2020 Performance & Improving Housing Market:** Despite rapidly changing market conditions owing to the COVID-19 pandemic outbreak, the company's adjusted earnings grew 7.4% year over year and adjusted EBITDA was up 12.9% in first-half 2020. The robust performance is reflective of improving housing market activity, which in turn led to improved demand during the period.

Markets have been showing resilience of late and housing is witnessing an impressive comeback on major data points, given low mortgage rates. With the opening of the economy, demand for housing and wood products have been improving amid broad economic disruption since late May 2020. The remarkable recovery in single-family housing construction and repair/remodel activity has led to surging lumber prices in August, hitting new all-time highs. This is expected to provide a major boost to the company's EBITDA in the third quarter of 2020.

Reasons To Sell:

▼ **Dependence on Housing Market & Coronavirus-Related Woes:** 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 witnessed a significant improvement, jump in new COVID-19 cases is a pressing concern.

This is reflected in the company's guidance (as highlighted in second-quarter earnings call), which projects lower earnings and adjusted EBITDA in the Timberland segment for the third quarter. This is due to harvesting reductions, pressure on export log markets, and seasonal cost pressure from higher forestry as well as hauling costs.

Weyerhaeuser noted that in the West, it expects slightly lower average price realizations (it anticipates sequentially high domestic pricing and somewhat weaker export pricing), a higher proportion of domestic log sales, as well as seasonally increased road and forestry costs. In the South, it anticipates seasonally higher forestry expenses, lower fee harvest volumes and slightly reduced average log sales realizations (primarily due to mix).

▼ **Currency Headwind:** 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.

▼ **Stiff Competition:** The company faces stiff competition from North American and global producers who have greater financial resources and lower production costs.

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

Last Earnings Report

Weyerhaeuser's (WY) Q2 Earnings Top, Adjusted EBITDA Up Y/Y

Weyerhaeuser Company reported impressive second-quarter 2020 results, wherein earnings and revenues comfortably surpassed the Zacks Consensus Estimate. The company delivered strong performance across businesses despite COVID-19 impacts.

Inside the Headlines

The company reported adjusted earnings of 11 cents per share, which surpassed the consensus mark of 1 cent by a whopping 1000% but decreased 31.3% from the year-ago figure of 16 cents.

Net sales of \$1,631 million topped the consensus mark of \$1,321 million by 24.4%. The reported figure, however, fell 3.6% from \$1,692 million reported in the prior-year quarter.

Adjusted EBITDA came in at \$386 million for the quarter, up 12.5% from \$343 million in the year-ago period.

Segments Details

Timberlands: Net sales (including inter-segment sales of \$121 million) in the segment came in at \$480 million, down 9.8% from the year-ago figure of \$532 million. Lower volumes and higher realizations for domestic and Japan export logs in the West, increased export costs, seasonally higher forestry and road spending, 4% reduced harvest volumes in the South, along with softness in fee harvest due to spring breakup impacted sales. Yet, improved China export volumes and realizations partially offset the negatives. Adjusted EBITDA came in at \$140 million, down 20% from \$175 million in the year-ago quarter.

Real Estate, Energy and Natural Resources: Segment's net sales amounted to \$65 million, down 19.8% from \$81 million reported in the prior-year quarter owing to reduction in real estate acres sold and average price per acre. Adjusted EBITDA also fell 19.7% to \$57 million from \$71 million in the year-ago quarter.

Wood Products: Sales in the segment totaled \$1,207 million, slightly down from \$1,210 million in the prior-year quarter. Adjusted EBITDA came in at \$198 million, up 54.7% from the year-ago figure of \$128 million. Market demand for wood products has been improving post April. Also, a 5% sequential increase in average sales realizations for lumber and improved manufacturing costs across all product lines supported the growth. This was partially offset by lower sales volumes across most of its product lines.

Financial Highlights

As of Jun 30, 2020, Weyerhaeuser had cash and cash equivalents of \$643 million, up from \$139 million at 2019-end. Long-term debt was \$6,299 million at quarter-end versus \$6,147 million at 2019-end.

Net cash from operations was \$391 million during the quarter compared with \$396 million in the year-ago period.

Outlook

For the third quarter, the company expects sequentially lower earnings and adjusted EBITDA in the Timberland segment. Geographically, in the West, the company expects lower average log sales realizations and seasonally higher road, forestry, and per unit logging as well as hauling costs. It anticipates sequentially higher average Western domestic log realizations, increased proportion of domestic log sales but slightly lower export log realizations. In the South, it projects seasonally higher forestry expenses, decreased fee harvest volumes and slightly lower average log sales realizations, primarily due to mix.

In the Real Estate, Energy and Natural Resources segment, Weyerhaeuser anticipates sequentially comparable earnings and adjusted EBITDA for the third quarter. For 2020, it expects adjusted EBITDA to be \$235 million, up from \$200 million expected earlier.

Within the Wood Products segment, the company predicts earnings and adjusted EBITDA to be significantly higher on a sequential basis. It anticipates improved sales volumes across most of the product lines. Currently, third-quarter benchmark pricing for lumber and oriented strand board is much higher than the second quarter average.

Quarter Ending **06/2020**

Report Date	Jul 31, 2020
Sales Surprise	23.47%
EPS Surprise	1,000.00%
Quarterly EPS	0.11
Annual EPS (TTM)	0.40

Valuation

Weyerhaeuser's shares are down 3.3% in the year-to-date period but up 19.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector is up 12.7% and 8.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 34.7% and 26.5%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 17.5% in the past year.

The stock is currently trading at 53.5X forward 12-month earnings, which compares to 29.9X for the Zacks sub-industry, 18.81X for the Zacks sector and 22.6X 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 28.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 62X 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	53.5	29.9	18.81	22.6
	5-Year High	74.88	43.18	19	22.62
	5-Year Low	15.35	17.09	10.74	15.25
	5-Year Median	28.35	24.03	15.86	17.58
P/S F12M	Current	3.48	3.22	2.16	3.65
	5-Year High	3.96	3.45	2.16	3.65
	5-Year Low	1.44	1.4	1.17	2.53
	5-Year Median	3.19	2.72	1.63	3.05
EV/EBITDA TTM	Current	21.66	25.36	19.53	12.55
	5-Year High	24.51	25.36	21.24	12.84
	5-Year Low	10.31	9.9	12.41	8.24
	5-Year Median	16.44	16.23	17.89	10.9

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Top 1% (3 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Boise Cascade, L.L.C. (BCC)	Outperform	1
FloorDecor Holdings, Inc. (FND)	Outperform	1
JELDWEN Holding, Inc. (JELD)	Outperform	2
LouisianaPacific Corporation (LPX)	Outperform	1
Norbord Inc. (OSB)	Outperform	1
Potlatch Corporation (PCH)	Outperform	2
Trex Company, Inc. (TREX)	Outperform	3
Universal Forest Products, Inc. (UFPI)	Outperform	1

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	WY	X Industry	S&P 500	FND	LPX	TREX
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	1	1	3
VGM Score	D	-	-	D	B	B
Market Cap	21.79 B	2.84 B	23.75 B	6.91 B	3.56 B	8.07 B
# of Analysts	3	3	14	11	4	8
Dividend Yield	3.49%	0.22%	1.68%	0.00%	1.83%	0.00%
Value Score	D	-	-	F	C	F
Cash/Price	0.03	0.04	0.07	0.02	0.07	0.00
EV/EBITDA	40.66	17.74	13.35	33.79	33.81	39.71
PEG Ratio	11.68	1.22	2.98	2.53	NA	NA
Price/Book (P/B)	2.66	2.91	3.20	8.13	3.56	16.15
Price/Cash Flow (P/CF)	27.37	19.51	12.97	34.88	22.18	51.24
P/E (F1)	58.40	23.28	22.17	58.04	15.71	48.85
Price/Sales (P/S)	3.31	1.57	2.54	3.35	1.57	10.34
Earnings Yield	1.71%	3.81%	4.31%	1.72%	6.37%	2.05%
Debt/Equity	0.77	0.73	0.77	1.30	0.38	0.06
Cash Flow (\$/share)	1.07	1.90	6.94	1.92	1.43	2.72
Growth Score	D	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	-15.03%	2.84%	10.41%	18.11%	0.52%	31.14%
Proj. EPS Growth (F1/F0)	29.06%	34.36%	-6.32%	0.08%	445.95%	15.59%
Curr. Cash Flow Growth	-42.27%	-27.92%	5.22%	30.45%	-67.52%	1.83%
Hist. Cash Flow Growth (3-5 yrs)	-8.57%	21.03%	8.55%	48.52%	32.59%	22.86%
Current Ratio	2.28	2.11	1.33	1.56	3.15	2.96
Debt/Capital	43.44%	43.44%	44.59%	56.48%	28.16%	5.80%
Net Margin	4.67%	2.00%	10.13%	7.04%	0.75%	21.41%
Return on Equity	3.59%	9.74%	14.59%	13.31%	9.74%	36.64%
Sales/Assets	0.39	1.12	0.51	0.86	1.16	1.27
Proj. Sales Growth (F1/F0)	9.70%	3.50%	-1.40%	11.06%	4.11%	10.72%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	1.07%	1.81%	0.67%	1.00%	2.35%	2.88%
1 Week Price Chg	1.94%	1.56%	2.30%	2.96%	-0.88%	-0.21%
4 Week Price Chg	16.52%	10.23%	4.87%	8.51%	10.29%	5.58%
12 Week Price Chg	49.90%	39.40%	13.54%	44.34%	38.80%	14.22%
52 Week Price Chg	19.18%	38.10%	6.06%	55.49%	40.46%	71.22%
20 Day Average Volume	5,214,943	429,522	2,006,991	1,358,117	1,335,847	579,093
(F1) EPS Est 1 week change	19.13%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	107.56%	57.50%	1.95%	43.71%	144.11%	8.46%
(F1) EPS Est 12 week change	191.79%	151.47%	2.72%	38.66%	339.13%	13.49%
(Q1) EPS Est Mthly Chg	1,350.00%	110.38%	0.84%	143.31%	526.32%	4.58%

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	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

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