

Weyerhaeuser Company (WY)

\$28.35 (As of 07/29/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: A

Summary

Weyerhaeuser shares have underperformed its industry so far this year. Nonetheless, estimates have been trending upward over the past 30 days, depicting analysts' optimism over the stock's earnings growth potential. The recent revival of housing market and its focus on operational excellence is expected to drive growth for Weyerhaeuser. Also, it took actions (increasing cash on hand, terming out debt, cutting non-essential operating expenses and reducing capex) to further shore up liquidity in response to the COVID-19 pandemic outbreak. However, the outbreak has disrupted the strong housing momentum. This is reflected in its updated guidance that projects reduced harvests and lower real estate sales. Additionally, there is a degree of uncertainty regarding the outlook for U.S. economic growth that could impact buyer sentiment.

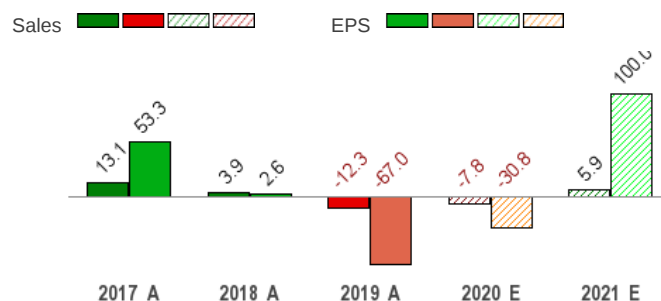
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.58 - \$13.10
20 Day Average Volume (sh)	4,893,129
Market Cap	\$21.2 B
YTD Price Change	-6.1%
Beta	1.89
Dividend / Div Yld	\$1.36 / 4.8%
Industry	Building Products - Wood
Zacks Industry Rank	Top 8% (19 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.6%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	18.5%
Expected Report Date	07/31/2020
Earnings ESP	125.0%
P/E TTM	63.0
P/E F1	105.0
PEG F1	21.0
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,664 E	1,529 E	1,630 E	1,577 E	6,399 E
2020	1,728 A	1,321 E	1,482 E	1,514 E	6,045 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	\$0.17 E	\$0.12 E	\$0.14 E	\$0.15 E	\$0.54 E
2020	\$0.18 A	\$0.01 E	\$0.08 E	\$0.07 E	\$0.27 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.

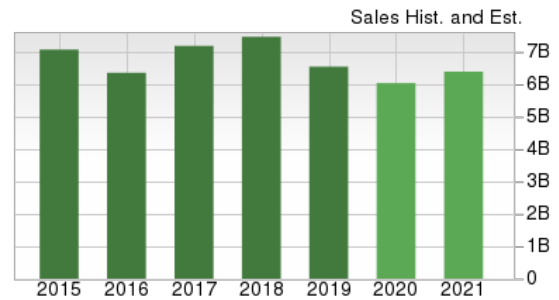
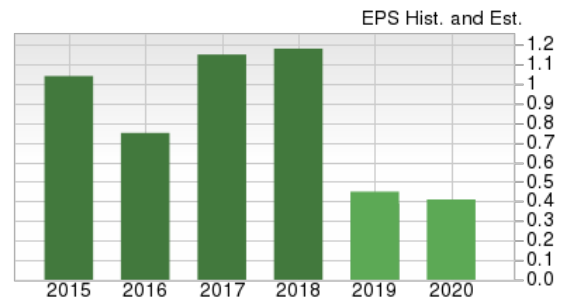
The data in the charts and tables, except sales and EPS estimates, is as of 07/29/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/30/2020.

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.

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 fourth-quarter 2020 increased substantially sequentially to \$1,458 million from \$139 million at 2019-end. Notably, the company's cash position remains sufficient to fund its short-term obligations of about \$577 million as of Mar 31, 2019.

Although the company's debt level and debt to capitalization increased to \$6,299 million and 43.8% (as of Mar 31, 2020) from \$6,147 million and 42.9% on Dec 31, 2019, respectively, Weyerhaeuser has enough cash to survive amid the coronavirus pandemic. Notably, its "Times Interest Earned" ratio of 1.9 reflects substantial sequential improvement from 0.4 in the prior quarter. 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 its debt obligations based on its current income.

The company has also temporarily suspended its dividend, and reduced non-essential operating expenses and capital expenditures to preserve liquidity and maintain financial flexibility. Earlier this year, management issued some bonds aimed at refinancing some of its nearer-term maturities. Without factoring in the cash from those bonds, the firm has \$700 million worth of cash on hand. This was made possible by the company's withdrawal of \$550 million from the revolving credit facility, which still has \$950 million remaining.

▲ **Strong Q1 Performance:** Despite rapidly changing market conditions owing to the COVID-19 pandemic outbreak, the company's adjusted earnings grew 63.6% year over year and adjusted EBITDA was up 13.2% in first-quarter 2020. The robust results are reflective of strong housing market activity that drove improved demand during the quarter. Benchmark pricing also trended higher through much of the first quarter.

Indeed, the outlook for 2020 has been clouded by uncertainty about the trajectory of COVID-19, and its impact on the overall economy, consumers and wood products demand. Also, economists' expectations generally point to a severe contraction in U.S. GDP in second-quarter 2020. Nonetheless, market pundits are of the opinion that the recovery will start in the third quarter, subject to easing of restrictions on activity. The company also expects gradual recovery of the housing activity to begin in the third quarter, as the effects of the pandemic dissipate.

Operational Excellence initiatives, stable balance sheet & recovery of the U.S. housing market post the COVID-19 pandemic outbreak will benefit Weyerhaeuser's businesses

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 depicted significant improvement from the beginning of 2019 till March, the coronavirus outbreak disrupted the momentum. This is reflected in the company's updated guidance (as highlighted in first-quarter earnings call), which projects reduced harvests and lower real estate sales.

A significant decrease in demand for sawlogs prompted the company to lower expectation for fee harvest volumes in the U.S. South. Management does not anticipate major changes in planned harvest volume in the West. Also, management expects earnings and adjusted EBITDA from its real estate, energy, and natural resources segment to be \$20 million lower year over year in second-quarter 2020. For 2020, the company now expects adjusted EBITDA of only \$200 million (versus its previous guidance of \$255 million), courtesy of a slower real estate market due to social distancing and slowdown in deal execution.

In addition to supply-side headwinds, builders continue to face a series of challenges, including labor and lot unavailability, and regulatory burdens, as they seek to bring affordable housing to the market. Additionally, there is a degree of uncertainty regarding the outlook for U.S. economic growth that could impact buyer sentiment.

▼ **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 Q1 Earnings & Revenues Surpass Estimates

Weyerhaeuser Company reported first-quarter 2020 results, wherein earnings and revenues surpassed the respective the Zacks Consensus Estimate. The company reported adjusted earnings of 18 cents per share, which beat the consensus mark of 14 cents by 28.6% and increased 63.6% from the year-ago figure of 11 cents.

Net sales during the quarter amounted to \$1,728 million, beating the consensus mark of \$1,670 million by 3.5%. The reported figure also grew 5.2% from \$1,643 million reported in the prior-year quarter on the back of growth of the Wood Products segment.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	3.47%
EPS Surprise	28.57%
Quarterly EPS	0.18
Annual EPS (TTM)	0.45

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 \$503 million, down 9.5% from the year-ago figure of \$556 million. Higher average domestic sales realizations, and increased average sales realizations and volumes for Japan export logs in the West were offset by lower fee harvest volumes and average log sales realizations in the South.

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) came in at \$173 million, down 10.4% from \$193 million in the year-ago quarter.

Net sales in Real Estate, Energy and Natural Resources amounted to \$112 million, down 5.1% from \$118 million reported in the prior-year quarter owing to higher number of acres sold. Adjusted EBITDA also fell 4.7% to \$101 million from \$106 million in the year-ago quarter.

Sales in the Wood Products segment totaled \$1,235 million, up 12.9% from \$1,094 million in the prior-year quarter. Adjusted EBITDA came in at \$184 million, up 60% from the year-ago figure of \$115 million. The improvement was due to increased average sales realizations for lumber and oriented strand board, as well as higher sales volumes across all product lines.

Operating Highlights

Adjusted EBITDA was \$413 million in the quarter, up 13.2% from \$365 million in the year-ago period.

Financial Highlights

As of Mar 31, 2020, Weyerhaeuser had cash and cash equivalents of \$1,458 million, up from \$139 million at 2019-end. Long-term debt was \$6,299 million at the end of the quarter versus \$6,147 million at 2019-end.

Net cash from operations was \$86 million at the end of the quarter versus \$14 million cash used in operations.

Q2 Outlook

For the second quarter, the company expects sequentially lower earnings and adjusted EBITDA in the Timberland segment.

Geographically, in the West, the company expects lower realizations, comparable domestic log sales volumes, and seasonally higher road and forestry costs to be partially offset by higher sales volumes for China export logs. In the South, the company anticipates lower fee harvest volumes and slightly lower average log sales realizations. In order to align harvest volumes with reduced sawlog demand, the company reduced full-year Southern fee harvest by 10% from the prior view. The company does not anticipate material changes in Western fee harvest volumes.

In the Real Estate, Energy and Natural Resources segment, Weyerhaeuser anticipates earnings and adjusted EBITDA to decline \$20 million from a year ago due to fewer real estate acres sold. The company now expects 2020 adjusted EBITDA for the segment to be \$200 million, as social distancing and other measures have curtailed real estate broker activity and lengthened the time required to finance, close, and record transactions.

In the Wood Products segment, the company predicts earnings and adjusted EBITDA to be significantly down on a sequential as well year-over-year basis. It anticipates significantly lower sales volumes across all product lines. In response to deteriorating market conditions owing to the COVID-19 outbreak, it has been adjusting production volumes across wood products manufacturing facilities to align with customer demand.

Valuation

Weyerhaeuser's shares are down 6.1% in the year-to-date period but up 11.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector is up 8.5% and 3.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 27.2% and 16.3%, respectively.

The S&P 500 index is up 1.4% in the year-to-date period and 9.8% in the past year.

The stock is currently trading at 66.15X forward 12-month earnings, which compares to 40.84X for the Zacks sub-industry, 19.78X for the Zacks sector and 22.7X for the S&P 500 index.

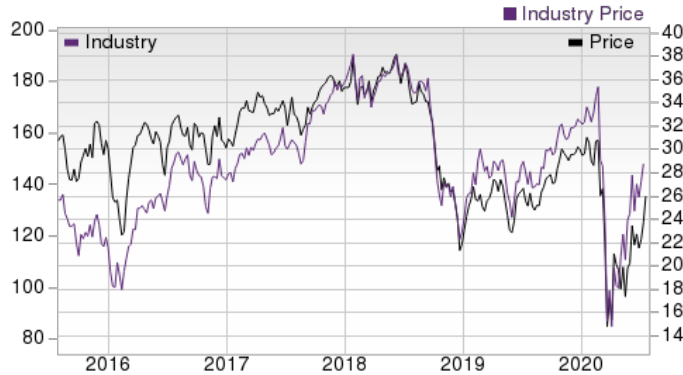
Over the past five years, the stock has traded as high as 74.88X and as low as 15.35X, with a 5-year median of 28.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 69.05X forward 12-month earnings.

The table below shows summary valuation data for WY.

Valuation Multiples - WY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	66.15	40.84	19.78	22.7
	5-Year High	74.88	43.18	19.78	22.7
	5-Year Low	15.35	17.09	10.74	15.25
	5-Year Median	28.24	24.03	15.86	17.52
P/S F12M	Current	3.39	3.53	2.11	3.59
	5-Year High	3.96	3.53	2.12	3.59
	5-Year Low	1.44	1.4	1.17	2.53
	5-Year Median	3.17	2.71	1.63	3.02
EV/EBITDA TTM	Current	22.02	16.22	18.91	14.19
	5-Year High	24.51	25.65	21.24	12.85
	5-Year Low	10.31	9.91	12.43	8.25
	5-Year Median	16.39	16.22	17.85	10.89

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Top 8% (19 out of 253)



Top Peers

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

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	WY	X Industry	S&P 500	FND	LPX	TREX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	D	-	-	C	D	D
Market Cap	21.15 B	2.95 B	22.69 B	7.24 B	3.62 B	8.08 B
# of Analysts	4	3	14	11	4	8
Dividend Yield	4.80%	0.46%	1.8%	0.00%	1.80%	0.00%
Value Score	D	-	-	D	D	F
Cash/Price	0.07	0.07	0.07	0.04	0.14	0.00
EV/EBITDA	38.51	19.29	13.11	35.39	35.44	39.78
PEG Ratio	20.90	3.89	3.05	3.89	NA	NA
Price/Book (P/B)	2.62	2.69	3.15	8.93	3.67	17.88
Price/Cash Flow (P/CF)	26.57	21.20	12.28	36.87	22.55	51.30
P/E (F1)	104.52	43.75	22.27	85.74	35.73	52.25
Price/Sales (P/S)	3.19	1.56	2.46	3.41	1.56	10.54
Earnings Yield	0.95%	1.92%	4.25%	1.16%	2.79%	1.91%
Debt/Equity	0.78	0.74	0.75	1.61	0.74	0.07
Cash Flow (\$/share)	1.07	1.88	6.94	1.92	1.43	2.72
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	-12.01%	5.00%	10.85%	NA	3.55%	31.82%
Proj. EPS Growth (F1/F0)	-30.13%	9.93%	-7.70%	-28.38%	143.92%	8.20%
Curr. Cash Flow Growth	-42.27%	-31.17%	5.31%	30.45%	-67.52%	1.83%
Hist. Cash Flow Growth (3-5 yrs)	-8.57%	19.60%	8.55%	48.52%	32.59%	22.86%
Current Ratio	1.37	2.27	1.31	1.88	4.56	2.75
Debt/Capital	43.80%	42.99%	44.23%	61.67%	42.99%	6.70%
Net Margin	5.47%	1.71%	10.45%	7.39%	0.04%	20.31%
Return on Equity	4.09%	5.05%	14.99%	17.08%	5.91%	36.67%
Sales/Assets	0.39	1.13	0.53	0.93	1.14	1.32
Proj. Sales Growth (F1/F0)	-7.77%	-0.12%	-1.97%	-0.12%	-2.47%	3.54%
Momentum Score	A	-	-	C	D	B
Daily Price Chg	4.04%	3.54%	1.52%	3.56%	2.90%	3.54%
1 Week Price Chg	0.62%	0.62%	0.37%	10.80%	3.23%	-0.46%
4 Week Price Chg	27.70%	25.90%	5.44%	22.52%	30.41%	11.86%
12 Week Price Chg	55.51%	55.93%	15.38%	66.56%	58.71%	24.73%
52 Week Price Chg	11.57%	23.37%	-1.61%	80.38%	23.37%	70.80%
20 Day Average Volume	4,893,129	491,943	1,846,377	938,347	1,155,565	706,157
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.14%	0.00%	0.00%
(F1) EPS Est 4 week change	18.48%	16.38%	0.27%	3.06%	14.24%	5.82%
(F1) EPS Est 12 week change	-12.10%	8.68%	-0.85%	4.70%	-7.44%	10.69%
(Q1) EPS Est Mthly Chg	300.00%	69.23%	0.13%	-3.85%	163.16%	10.72%

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	C
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.

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