



Weyerhaeuser (WY)

Updated November 6th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$36.4	5 Year CAGR Estimate:	5.6%	Market Cap:	\$27 B
Fair Value Price:	\$55.8	5 Year Growth Estimate:	-5.3%	Ex-Dividend Date:	11/02/21 ¹
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	8.9%	Dividend Payment Date:	11/17/21 ²
Dividend Yield:	1.9%	5 Year Price Target	\$43	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	NA

Overview & Current Events

Beginning operations in 1900, Weyerhaeuser is one of the world's largest private owners of timberlands. The trust owns 12.2 million acres in the U.S. and manages additional timberlands under long-term licenses in Canada. In 2010 Weyerhaeuser converted to a Real Estate Investment Trust (REIT) and in 2016 the trust merged with Plum Creek Timber Trust. Weyerhaeuser, a \$27 billion market capitalization trust, employs approximately 9,300 people and generates about \$7.5 billion in annual sales under normalized conditions, but ~\$10 billion for 2021.

On 10/29/2021, Weyerhaeuser reported Q3 results. Q3 GAAP EPS came in at \$0.64, up from \$0.38 in the year-ago quarter. Adjusted EBITDA decreased to \$746 million in Q3 from \$1.6 billion sequentially and up slightly from \$745 million in the year-ago quarter. Net sales of \$2.3 billion rose from \$2.1 billion in the year-ago quarter. Wood products adjusted EBITDA stood at \$565 million, down from \$1.39 billion sequentially. Meanwhile, timberlands adjusted EBITDA decreased to \$165 million from \$180 million sequentially while real estate, energy, and natural resources adjusted EBITDA declined to \$60 million from \$91 million quarter-over-quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
CFPS	\$1.49	\$1.56	\$1.93	\$2.47	\$1.88	\$1.38	\$1.46	\$1.47	\$1.60	\$2.03	\$3.28	\$2.50
DPS	\$0.60	\$0.62	\$0.81	\$1.02	\$1.20	\$1.24	\$1.25	\$1.32	\$1.36	\$0.68	\$0.68	\$1.36
Shares³	536.5	544.3	583.8	525.0	510.5	749.0	756.1	746.5	745.5	747.8	749.0	753

Note that we have used cash flow per share instead of earnings, as this better reflects Weyerhaeuser's true earnings power. Even with this adjustment, you can see that the trust has gone through many changes in the last decade. This shows up in the dramatic decline in cash flow and dividends during the last recession, and with a material change in the share count around its REIT transformation in 2010, as well as its Plum Creek merger in 2016.

From 2011 through to 2020, Weyerhaeuser grew cash flow per share by about 3.1% per year, while the dividend grew significantly before being cut in 2020. Weyerhaeuser's business is very much dependent on lumber and more generally, housing demand. The wood product business has higher fixed costs (and thus theoretically higher barriers to entry) but the trust does not possess pricing power in either the wood or lumber commodity businesses. High volume can lead to outsized profits, but this is mainly a result of demand and is out of Weyerhaeuser's hands.

It is typical to see a REIT's share count increase as the business pays out the majority of earnings as a dividend and issues new shares to fund growth opportunities. However, lately Weyerhaeuser has actually been repurchasing shares and management has indicated it will continue to do so opportunistically. Looking ahead, we expect that the economic disruption from the coronavirus outbreak will prove to be temporary and that cash flows and dividends per share will continue to grow on the back of a surge in lumber prices and a housing boom.

¹ Estimate

² Estimate

³ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/CF	12.5	17.8	16.4	14.5	15.9	21.8	24.2	14.9	18.1	14.3	11.1	17.0
Avg. Yld.	3.2%	2.2%	2.6%	2.8%	4.0%	4.1%	3.5%	6.0%	4.7%	2.3%	1.9%	3.2%

During the 2011 through 2020 stretch, Weyerhaeuser traded hands with an average price to cash flow multiple of ~17x. However, it has varied widely from 12 to 24. We believe that the current valuation represents a deep discount to our fair value estimate of 17, leading to significant multiple expansion from this point.

Management has a target of paying out roughly 85% of the funds available for distribution in the form of cash dividends under normal conditions. We believe that it will be a while before this payout level is returned to, but we do expect the dividend to continue growing moving forward in balance with share repurchases, balance sheet deleveraging, and strategic growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	40%	40%	42%	41%	64%	90%	86%	90%	85%	33%	21%	54%

Weyerhaeuser had to substantially cut its dividend due to uncertainty from the COVID-19 disruption of the economy. However, lumber prices have rebounded well and management has reinstated its dividend, albeit at a reduced rate from previously.

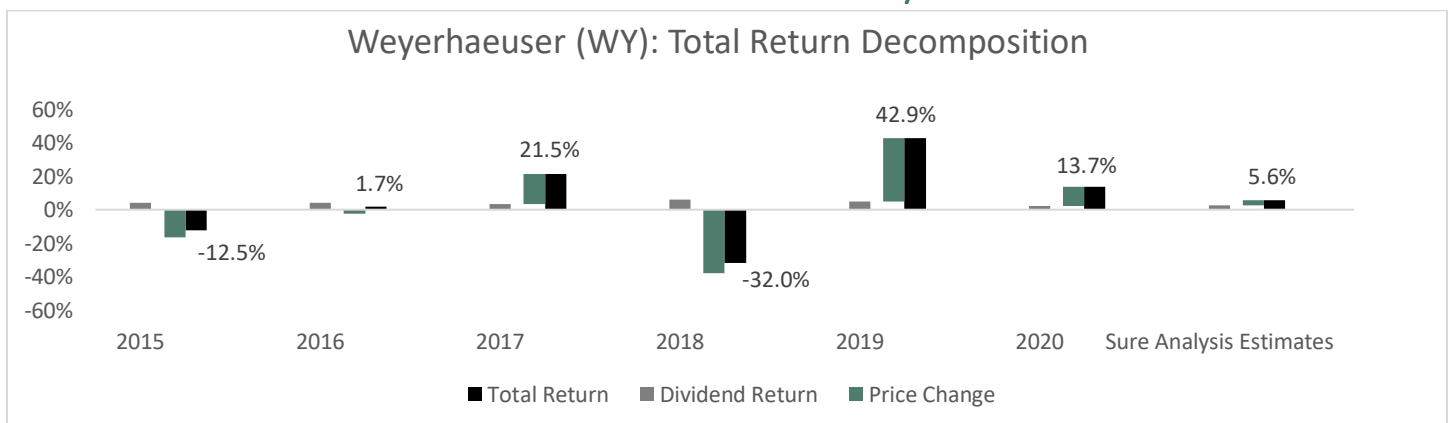
Weyerhaeuser does not enjoy much of a competitive advantage. While being a dominant land holder and having high entry costs are important, the trust is not able to dictate prices, and instead is reliant upon market forces.

The trust has an investment-grade balance sheet with ample liquidity, enabling it to deploy cash opportunistically to repurchase shares and create value for shareholders. The dividend should be a small fraction of cash flow this year given the temporarily reduced payout, but we expect Weyerhaeuser to get back to paying out the majority of cash flow as dividends in the coming years.

Final Thoughts & Recommendation

Overall, we view Weyerhaeuser as a fine business and view timberland as a conservative long-term investment, though its dividend has proven to be unreliable during periods of economic disruption. At current prices, however, we do not feel that share prices offer any particularly attractive discount as our expected annualized total return over the next half decade is a mediocre 5.6%. As a result, we rate shares a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6216	5989	7254	5489	5246	6365	7196	7476	6554	7532
Gross Profit	1096	996	1538	1306	1093	1385	1898	1884	1142	2085
Gross Margin	17.6%	16.6%	21.2%	23.8%	20.8%	21.8%	26.4%	25.2%	17.4%	27.7%
SG&A Exp.	601	498	529	403	351	427	397	406	432	430
Operating Profit	518	519	1015	890	741	950	1477	1418	676	1529
Operating Margin	8.3%	8.7%	14.0%	16.2%	14.1%	14.9%	20.5%	19.0%	10.3%	20.3%
Net Profit	331	385	563	1826	506	1027	582	748	(76)	797
Net Margin	5.3%	6.4%	7.8%	33.3%	9.6%	16.1%	8.1%	10.0%	-1.2%	10.6%
Free Cash Flow	79	325	743	714	592	225	782	685	582	1248
Income Tax	(62)	10	(171)	71	(58)	89	134	59	(137)	185

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	12634	12592	14577	13265	12720	19243	18059	17249	16406	16311
Cash & Equivalents	953	898	830	1580	1011	676	824	334	139	495
Acc. Receivable	509	523	518	525	276	390	396	337	309	450
Inventories	476	531	542	595	325	358	383	389	416	443
Goodwill & Int.	40	40	42	40	40	40				
Total Liabilities	8367	8479	7745	7961	7851	10063	9160	8203	8229	7580
Accounts Payable	336	373	343	331	204	233	249	222	246	204
Long-Term Debt	5262	4963	5404	5402	5302	7121	6503	6646	6377	5475
Total Equity	4263	4070	6781	5290	4855	9180	8899	9046	8177	8731
D/E Ratio	1.23	1.22	0.80	1.02	1.09	0.78	0.73	0.73	0.78	0.63

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.5%	3.1%	4.1%	13.1%	3.9%	6.4%	3.1%	4.2%	-0.5%	4.9%
Return on Equity	7.5%	9.2%	10.4%	30.3%	10.0%	14.6%	6.4%	8.3%	-0.9%	9.4%
ROIC	3.4%	4.1%	5.3%	15.9%	4.8%	7.8%	3.7%	4.8%	-0.5%	5.5%
Shares Out.	536	542	583	524	510	749	755	757	755	755
Revenue/Share	11.51	11.04	12.70	9.79	10.10	8.81	9.51	9.88	8.79	10.07
FCF/Share	0.15	0.60	1.30	1.27	1.14	0.31	1.03	0.91	0.78	1.67

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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