UFP Industries, Inc. (UFPI)

Published July 12, 2024, by Kody Kester

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$7.4B
Fair Value Price:	$117	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	08/31/24
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	09/15/24
Dividend Yield:	1.1%	**5 Year Price Target**	$180	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

UFP Industries, Inc. is a holding company that designs, manufactures, and sells wood, non-wood composites, and other materials. Since 1955, UFPI has established itself as the largest converter of softwood lumber in North America.

The company reports its results via the following three similarly sized segments:

UFP Retail Solutions: The segment is organized into the ProWood, Deckorators, and UFP-Edge business units. ProWood sells pressure-treated lumber products like decking and fencing to retailers around the United States. Deckorators sells wood plastic composites and its patented Surestone mineral-based decking and decking accessories (balusters and post caps). The UFP-Edge business unit sells trim and fascia and exterior siding products to home improvement retailers and two-step distributors.

UFP Packaging: The segment is broken down into the Structural Packaging, PalletOne, and Protective Packaging Solutions business units. Structural Packaging engineers and manufactures custom packaging products made of wood and metal. These are sold to global customers in building materials, durable goods, and agricultural industries. PalletOne designs and manufactures pallets mostly consisting of wood and heat-treated wood. These are used by customers to ship a variety of consumer and industrial products. The Protective Packaging Solutions unit sells products to customers, such as corrugate, foam, and labels.

UFP Construction: This segment is made up of Factory-Built Housing, Site-Built Construction, Commercial Construction, and Concrete Forming business units. The Factory-Built Housing unit manufactures roof trusses, plywood, and oriented strand boards for housing manufacturers. The Site-Built Construction unit designs and manufactures roof and floor trusses, wall panels, and lumber packages. The Commercial Construction unit designs, manufactures, and installs highly customized interior fixtures for the healthcare, hospitality, and quick-service restaurant industries. The Concrete Forming unit manufactures and supplies wood forms that are used to set or form concrete for large parking garages, stadiums, and bridges.

On April 30, UFPI shared its financial results for the first quarter ended March 31. The company's net sales decreased by 10.1% year-over-year to $1.6 billion during the quarter. This was driven by a 9% decrease in selling prices and a 1% decrease in organic unit sales in the quarter. Rather than this being an issue with UFPI's fundamentals, this can arguably be attributed to the high interest rate macroeconomic environment. The company's diluted EPS fell by 1% over the year-ago period to $1.98 for the quarter. A 15-basis point improvement in the net profit margin to 7.3% and a lower share count helped diluted EPS to contract at a lesser rate than net sales during the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.95	$1.33	$1.65	$1.83	$2.34	$2.91	$3.99	$8.39	$10.99	$8.07	***$7.68***	***$11.82***
DPS	$0.20	$0.27	$0.29	$0.32	$0.36	$0.40	$0.50	$0.65	$0.95	$1.10	***$1.32***	***$2.02***
Shares[2]	60.0	60.4	61.0	61.2	60.9	61.4	61.2	61.9	61.6	61.6	***61.8***	***58.7***

[1] Estimate

[2] Share count is 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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UFPI's annual unit sales growth target is between 7% and 10% over the long term. Given the fragmentation of the industries in which the company operates, this seems to be a realistic growth target. That's because it leaves room for UFPI to execute bolt-on acquisitions as part of its growth strategy. Add in the growth of the company's end markets over time and this is another catalyst that can help drive revenue higher. UFPI could also modestly expand margins (11% Q1 adjusted EBITDA margin versus 12.5% target) and reduce its share count with share repurchases.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	18.3	17.1	20.6	20.6	11.0	16.8	13.9	11.0	7.2	15.5	***15.6***	***15.2***
Avg. Yld.	1.1%	1.2%	0.9%	0.9%	1.4%	0.8%	0.9%	0.7%	1.2%	0.9%	***1.1%***	***1.1%***

Including valuation peaks and troughs, UFPI's average P/E ratio in the past 10 years is 15.2. The current P/E ratio of 15.6 is just below its normal valuation multiple. Considering that UFPI's growth prospects look to be relatively intact, we think that a reversion to the 10-year normal P/E ratio is 15.2 is likely. This would offer a marginal downside potential from the current share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

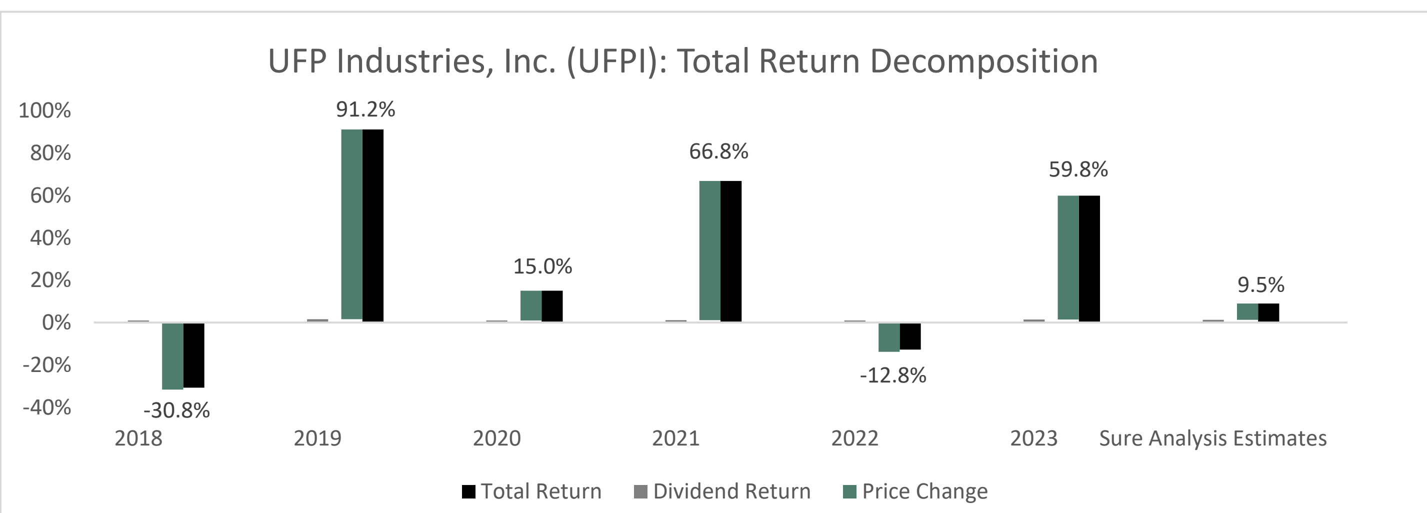
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	20%	18%	17%	15%	14%	13%	8%	9%	14%	***17%***	***17%***

The company's most notable competitive advantage is its size and scale. UFPI is the largest buyer of softwood lumber on the continent. That affords it a great deal of leverage in negotiations with suppliers. This has allowed UFPI to deliver relatively consistent diluted EPS growth to shareholders. The company's $702.6 million net surplus cash balance as of March 31 is equivalent to nearly 10% of its market cap. Along with a payout ratio in the teens, this should also support a dividend that can grow in line with diluted EPS in the years ahead.

Final Thoughts & Recommendation

UFPI's 1.1% dividend yield, 9.0% annual diluted EPS growth potential, and -0.6% annual valuation downside could translate into 9.5% annual total returns over the next five years. Any further deterioration in the real estate market could negatively impact results and lead to share price volatility. In the meantime, we believe a greater margin of safety is needed to warrant a buy rating. Thus, shares are a hold currently.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,660	2,887	3,240	3,941	4,489	4,416	5,154	8,636	9,627	7,218
Gross Profit	325	400	475	543	593	686	800	1,407	1,789	1,419
Gross Margin	12.2%	13.9%	14.6%	13.8%	13.2%	15.5%	15.5%	16.3%	18.6%	19.7%
SG&A Exp.	230	264	310	362	392	439	445	682	832	767
D&A Exp.	36	41	44	53	61	67	73	98	114	132
Operating Profit	94	136	164	181	201	245	346	738	950	647
Operating Margin	3.5%	4.7%	5.1%	4.6%	4.5%	5.5%	6.7%	8.5%	9.9%	9.0%
Net Profit	58	81	101	120	149	180	247	536	693	514
Net Margin	2.2%	2.8%	3.1%	3.0%	3.3%	4.1%	4.8%	6.2%	7.2%	7.1%
Free Cash Flow	28	125	119	65	21	264	247	361	657	780
Income Tax	34	46	55	52	45	58	87	174	230	157

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,024	1,108	1,292	1,465	1,648	1,889	2,405	3,245	3,672	4,018
Cash & Equivalents	-	88	34	28	27	168	437	287	559	1,118
Accounts Receivable	196	223	282	328	343	364	471	738	618	549
Inventories	340	305	397	460	556	487	567	963	973	728
Goodwill & Int. Ass.	192	199	228	255	273	285	332	431	489	519
Total Liabilities	324	341	432	491	559	632	922	1,229	1,068	968
Accounts Payable	89	95	125	140	137	142	212	319	207	203
Long-Term Debt	99	86	131	172	230	164	312	337	278	276
Shareholder's Equity	686	753	849	959	1,073	1,244	1,460	1,979	2,564	3,000
LTD/E Ratio	0.14	0.11	0.15	0.18	0.21	0.13	0.21	0.17	0.11	0.09

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.9%	7.6%	8.4%	8.7%	9.5%	10.2%	11.5%	19.0%	20.0%	13.4%
Return on Equity	8.5%	11.0%	12.4%	13.0%	14.4%	15.3%	18.0%	30.6%	30.0%	18.2%
ROIC	7.5%	9.8%	11.0%	11.2%	12.1%	13.1%	15.3%	25.8%	26.5%	16.6%
Shares Out.	60.0	60.4	61.0	61.2	60.9	61.4	61.2	61.9	61.6	61.6
Revenue/Share	44.66	48.23	53.81	65.29	74.28	73.44	86.00	143.09	158.72	119.04
FCF/Share	0.47	2.09	1.97	1.08	0.34	4.40	4.13	5.99	10.84	12.85

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