West Fraser Timber Co. Ltd. (WFG)

Updated March 2nd, 2025, by Yiannis Zourmpanos

Key Metrics

Current Price:	$80	**5 Year CAGR Estimate:**	10.6%	**Market Cap:**	$6.3 B
Fair Value Price:	$108	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/14/2025
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.1%	**Dividend Payment Date:**	04/03/2025
Dividend Yield:	1.6%	**5 Year Price Target**	$125	**Years Of Dividend Growth:**	5
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

West Fraser Timber Co. Ltd. (WFG) is a diverse manufacturer of wood products with over 60 locations in Canada, the United States, the United Kingdom, and Europe. The company produces pulp, newspaper, wood chips, various residuals, lumber, engineered wood products (OSB, LVL, MDF, plywood, and particleboard), and renewable energy. WFG's products are used in industrial applications, papers, tissue, packaging materials, house building, maintenance, and renovation. The company's business is comprised of 34 lumber mills, 15 OSB facilities, six renewable energy facilities, five pulp and paper mills, three plywood facilities, three MDF facilities, two particleboard facilities, one LVL facility, one treated wood facility, and one veneer facility. WFG's business segments comprise of Lumber Segment, North America Engineered Wood Products, Pulp & Paper Segment, and Europe Engineered Wood Products Segment, with the primary business segments being Lumber Segment and North American Engineered Wood Products segment constituting 46.7% and 40.6% of annual revenues.

On February 12th, 2025, West Fraser Timber announced Q4 2024 results, reporting GAAP EPS of -$0.80, which beat the market's estimates by $1.48, and revenues of $1.41 billion that were down 6.6% year-over-year. The net loss of $62 million in earnings was primarily driven by a $70 million non-cash impairment charge related to its European operations.

Adjusted EBITDA for the quarter came in at $140 million (10% of sales), reflecting continued resilience in North American Engineered Wood Products (NA EWP), which posted $127 million in adjusted EBITDA. The Lumber segment showed modest improvement, with adjusted EBITDA of $21 million, benefiting from portfolio optimization strategies that shifted production to lower-cost mills. However, weakness in Europe persisted, with Europe EWP segment adjusted EBITDA at just $2 million. During the quarter, the company repurchased 311,523 shares for $27 million, while maintaining a $0.32 per share dividend payout.

For the full year, West Fraser reported sales of $6.174 billion and a net loss of $5 million, or -$0.07 per share, a marked improvement from 2023's $167 million loss. Adjusted EBITDA for 2024 rose 20% year-over-year to $673 million, supported by strong NA EWP performance ($744 million adjusted EBITDA). Despite headwinds from higher mortgage rates and potential U.S. tariffs on Canadian exports, management remains optimistic about long-term housing demand trends and plans to invest $400 million to $450 million in capital expenditures for 2025. The company repurchased 1.8 million shares for $144 million in 2024, reinforcing its commitment to shareholder returns while maintaining financial flexibility.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.90	$3.02	$6.10	$7.80	-$2.34	$9.50	$27.03	$20.86	-$2.01	-$0.07	***$4.54***	***$12.49***
DPS	$0.20	$0.21	$0.26	$0.45	$0.61	$0.63	$0.76	$1.15	$1.20	$1.26	***$1.28***	***$1.63***
Shares[1]	82.5	78.2	78.0	69.8	68.7	68.7	105.9	94.1	83.2	81.1	***87.5***	***83.2***

The company anticipates continued strong performance in its North American Engineered Wood Products segment while managing lower lumber shipments due to market conditions, maintaining a focus on modernizing mills, and optimizing assets to enhance long-term growth and resilience. WFG is a highly cyclical stock, and even though the

[1] In millions.

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company might be in the mid-term cycle, its earnings can bounce back to their previous levels from 2024 onwards. For estimating WFG's fair value for the next five years, we used the earnings power method since it is more representative of the company's value due to non-recurring events that negatively affected the company's earnings in 2023. Therefore, our earnings power 2025 estimate for WFG stands at $10.77, but we anticipate slower growth through 2030. Lastly, we expect that the DPS will maintain its increasing trend with a CAGR of 5.0% through 2030, considering that the company has grown its dividends over the past 10 and five years at a healthy CAGR of 22.7% AND 15.6%, respectively.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	51.5	11.1	8.2	8.1	-19.3	4.4	2.8	4.0	-38.3	-1226.7	***7.4***	***10.0***
Avg. Yld.	0.4%	0.6%	0.5%	0.7%	1.4%	1.5%	1.0%	1.4%	1.6%	1.5%	***1.6%***	***1.3%***

WFG is a cyclical business, so earnings are sensitive to macro-environment changes, which are expected to worsen going forward. The current valuation is elevated, although it reflects the earnings growth potential of the company. For 2030, we have used a P/E ratio of 10.0, which we believe would be a fair reflection of the company's business, resulting in a five-year target price of $125.

Safety, Quality, Competitive Advantage, & Recession Resiliency

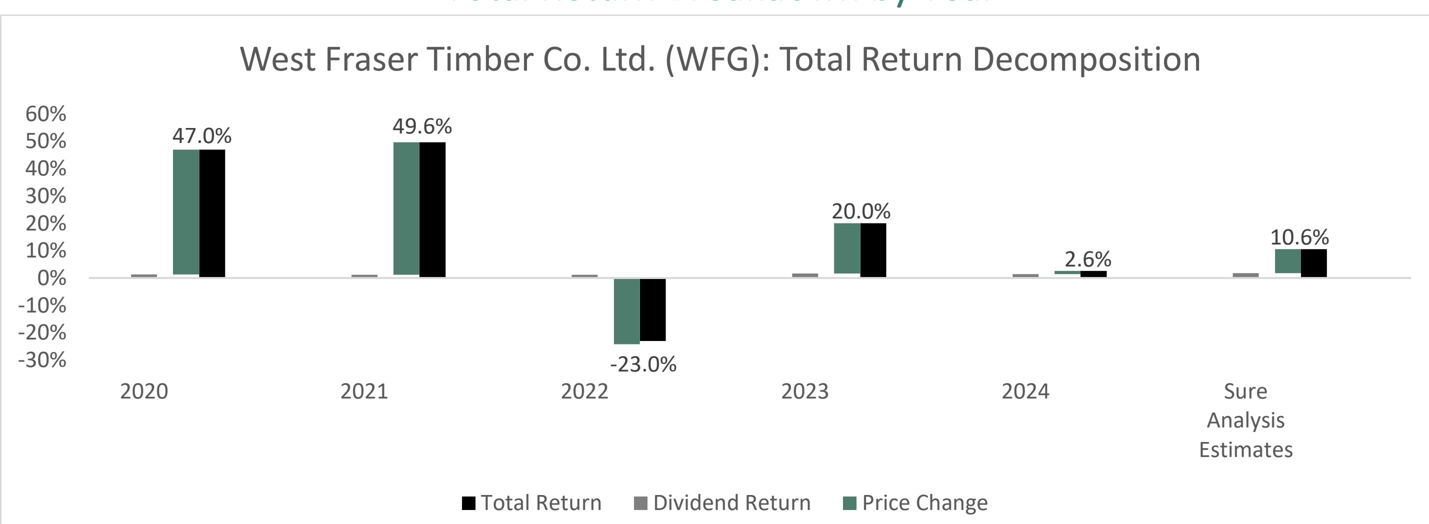
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	22%	7%	4%	6%	-26%	7%	3%	6%	-60%	-1800%	***12%***	***13%***

WFG maintains a strong balance sheet and liquidity profile, enabling the company to execute a balanced capital allocation strategy. During Q4 2024, West Fraser maintained a strong liquidity position with $641 million in cash and short-term investments, following the repayment of its $300 million senior notes. The company invested $156 million in capital expenditures during the quarter, reinforcing its commitment to modernizing operations and enhancing financial flexibility. West Fraser remained dedicated to shareholder returns in 2024, repurchasing 1.8 million shares for $144 million, including 311,523 shares in Q4 for $27 million, reflecting confidence in its long-term value.

Final Thoughts & Recommendation

We maintain our buy rating on West Fraser premised upon the 10.6% annualized total returns for the medium-term, derived from our growth estimates, the dividend yield of 1.6%, and a valuation tailwind. We note that the stock is best suited for investors with a higher tolerance for risk.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2022	2023
Revenue	2,955	3,311	4,083	4,492	3,734	4,373	10,518	9,701	9,701	6,454
Gross Profit	883	1,100	1,598	1,836	938	1,814	5,873	4,559	4,559	1,769
Gross Margin	29.9%	33.2%	39.2%	40.9%	25.1%	41.5%	55.8%	47.0%	47.0%	27.4%
SG&A Exp.	546	595	701	712	712	723	1,198	1,333	1,333	1,226
D&A Exp.	138	147	167	189	198	203	584	589	589	540
Operating Profit	179	359	692	787	(96)	831	3,945	2,619	2,619	(6)
Op. Margin	6.1%	10.8%	16.9%	17.5%	-2.6%	19.0%	37.5%	27	27	0.0%
Net Profit	75	243	474	595	(115)	588	2,947	1,975	1,975	(167)
Net Margin	2.5%	7.3%	11.6%	13.2%	-3.1%	13.4%	28.0%	20.4%	20.4%	(2.6%)
Free Cash Flow	58	310	450	396	(226)	788	2,917	1,730	1,730	48
Income Tax	37	88	199	192	(53)	202	951	618	618	(61)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,926	2,619	2,678	3,592	3,518	3,594	4,178	10,433	9,973	9,415
Cash & Equivalents						10	434	847	1,162	900
Acc. Receivable	202	182	182	235	197	159	244	441	286	250
Inventories	505	455	432	533	581	561	578	1,061	1,032	851
Goodwill & Int.	758	677	686	1,005	940	974	963	2,808	2,709	2,684
Total Liabilities	1,178	1,072	1,011	1,424	1,391	1,689	1,700	2,777	2,354	2,192
Accounts Payable	174	136	157	194	191	160	198	411	359	417
Long-Term Debt	394	433	307	506	553	795	507	499	499	499
Total Equity	1,748	1,547	1,667	2,168	2,126	1,905	2,478	7,656	7,619	7,223
LTD/E Ratio	0.23	0.28	0.18	0.23	0.26	0.42	0.20	0.07	0.07	0.07

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.6%	2.7%	9.2%	15.1%	16.7%	-3.2%	15.1%	40.3%	19.4%	(1.7%)
Return on Equity	12.5%	4.5%	15.1%	24.7%	27.7%	-5.7%	26.8%	58.2%	25.9%	(2.3%)
ROIC	10.4%	3.6%	12.3%	20.4%	22.2%	-4.3%	20.7%	52.9%	24.3%	(2.1%)
Shares Out.	83.5	82.5	78.2	78.0	69.8	68.7	68.7	105.9	94.2	83.2
Revenue/Share	38.55	35.01	40.83	51.71	59.81	53.97	63.50	96.00	103.01	77.57
FCF/Share	0.65	0.69	3.82	5.70	5.27	(3.26)	11.44	26.62	18.37	0.58

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