

Equity Research

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Weyerhaeuser



Company Profile

Commanding 13.1 million acres of timberlands, primarily in the United States, Weyerhaeuser (NYSE: WY) is one of the world's largest private owners of timberlands. WY realizes value in ways such as, harvesting the trees and selling the timberland. Additionally, they seek to realize value for oil and natural gas production, construction aggregates, mineral extraction, wind power, communication, and transportation rights of way that exist within their ownership. WY is one of the largest manufacturers of wood products in North America. Weyerhaeuser is classified as a real estate investment trust (REIT). In 2016, WY generated \$6.4 billion in net sales from continuing operations and employed approximately 10,400 people worldwide.

Ticker Symbol (NYSE)	WY
Price (1/7/2018)	\$35.50
Style	Large Cap
Industry	Specialty REIT
Sector	Timberlands & Wood Products
Beta	1.4

EPS & Revenue Forecasts

FY Ended Dec	2015	2016	2017	Growth (3yr)	2018-E
Revenue (M)	\$5,246	\$6,387	\$ 6,971	9.9%	\$7,664
EBITDA (M)	\$1,234	\$1,585	\$ 1,790	13.2%	\$2,026
EPS (Basic)	\$ 0.89	\$ 1.40	\$ 1.15	8.9%	\$ 1.25

Key Statistics

52-wk. Price Range (Low - High)	\$29.88	\$36.92
Average Daily Volume	2.65 M	
Shares Outstanding	755.90 M	
Market Value (\$U.S.)	\$26.83 B	
Total Debt/Equity	72%	
Cash per share (\$U.S.)	\$ 0.66	
Book Value per share	\$ 12.00	
Dividend and Yield	\$ 1.28	3.61%

Valuation Summary

	Last	High	5-Year Low	Avg.	Rel. to SP500
P/E (TTM)	71.1x	71.9x	34.6x	52.6x	19.00x
P/Book	3.0x	3.7x	2.9x	3.2x	2.73x
P/Sales	3.8x	4.7x	2.2x	3.6x	2.00x
EV/EBITDA	18.2x	26.4x	18.2x	22.2x	11.41x

Growth Summary

	2015	2016	2017	Average
Sales (growth)	-4.4%	21.7%	15.1%	10.8%
EBITDA (margin)	23.5%	24.8%	25.7%	24.7%
Net Income (margin)	9.6%	16.1%	12.4%	12.7%
EPS basic (growth)	-72.2%	57.3%	-17.9%	-10.9%
Dividends per Share (growth)	17.6%	3.3%	0.0%	7.0%

Investment Thesis

Weyerhaeuser's recent acquisition of Plum Creek Timber makes their timber holdings nearly five times the scale of their largest competitor. WY is strongly positioned to capitalize on an improving housing market as well as decade high lumber prices.

Weyerhaeuser has consolidated their core operations, has instituted a generous stock buy-back program and is focused on becoming 'the world's premier timber, land, and forest products company.'

Recommendation

BUY

Operations

	(Millions \$)	Total Assets	YoY G%	Sales	YoY G%	Earnings Contribution	YoY G%
Timberlands				\$ 1,805	42%	\$ 499	6%
Real Estate & ENR		\$ 15,608	115%	\$ 226	124%	\$ 55	-30%
Wood Products		\$ 1,910	24%	\$ 4,334	12%	\$ 512	98%
Unallocated Items & Intersegment Eliminations		\$ 1,725	-56%	-	-	\$ (131)	16%
Consolidated		\$ 19,243	34%	\$ 6,365	21%	\$ 935	35%

>In 2016, Weyerhaeuser merged with Plum Creek Timber. The merger combined two industry leaders and increased WY assets (net of assumed liabilities) by \$6383M.

>In 2016, WY entered into agreements to sell their Cellulose Fibers business segment. The Cellulose Fibers pulp business to International Paper for \$2.2B in cash. The Cellulose Fibers liquid packaging board business was sold to Nippon Paper Industries Co., for \$285M in cash. Additionally, WY interest in their printing papers joint venture was sold to One Rock Capital Partners for \$42M of cash proceeds.

>In 2014 WY divested their homebuilding and real estate development business, WRECO. The division was sold to TRI Pointe. WY received a net gain of \$972M on the divestiture recognized in 2014 discontinued operations.

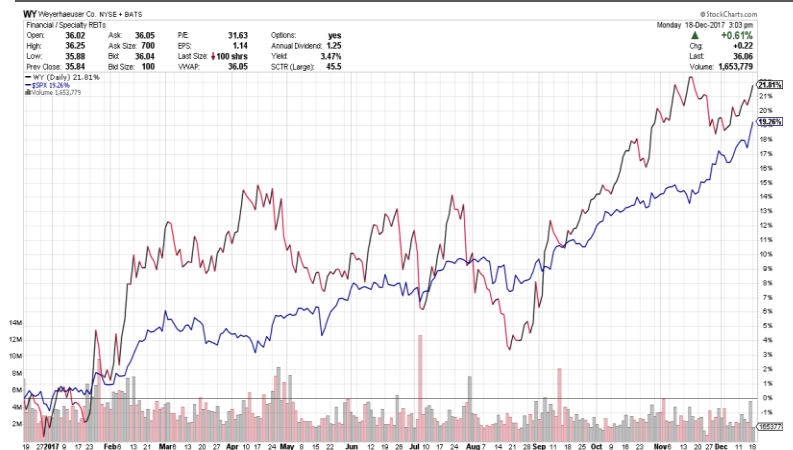
Bull Case

- As the largest player involved with US Timberlands, WY is well-positioned to capitalize on decade high lumber prices.
- Strategic, synergistic divestitures and acquisitions has aggressively scaled WY assets.
- WY Woods Products business segment is set for aggressive growth. In the merger with Plum Creek Timber, WY acquired five additional manufacturing facilities in Montana, two plywood facilities, two lumber facilities, and one MDF facility.
- WY is positioned to benefit from the improving housing market.

Bear Case

- Increasing interest rates could put downwards pressure on REITS in general. WY is one of the largest REITS in the United States.
- Highly Leveraged to the state of the US Housing Market.
- WY is currently trading at a high P/E ratio of 71.1x which means that WY needs to aggressively grow operations to justify this high valuation.

One-Year Price Performance vs. S&P 500

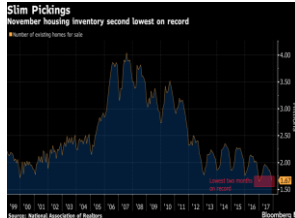
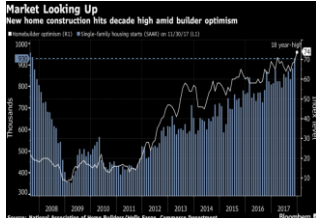


Market Conditions

The health of the U.S. housing market. Strongly affects Weyerhaeuser's Wood Products and Timberlands segments. Wood Products primarily sells into the new residential building and repair and remodel markets. Demand for logs from the Timberlands segment is affected by the production of wood-based building products as well as export demand. Real Estate is affected by local real estate market conditions. Energy and Natural Resources are affected by the changes in commodity prices, including oil and gas.

Housing Market

The U.S. housing market has been heating up going into 2018. Sales have been picking up with 2017 seeing the greatest increase in home sales since 2015. The market can be characterized by tight supply, building optimism, and elevated prices. -Bloomberg



Lumber

Lumber prices are hovering near decade highs. If lumber futures sustain the bullish price momentum and remain elevated heading into 2018, WY should be among the largest beneficiaries.



Profitability Ratios

	2017	5-Year			Industry Average
		High	Low	Average	
Return on Assets (%)	4.0%	4.7%	3.6%	4.1%	5.2%
Return of Equity (%)	4.1%	10.2%	4.1%	7.4%	13.8%
Return on Invested Capital (%)	4.7%	6.0%	4.5%	5.0%	6.9%
Gross Margin	25.3%	25.3%	21.2%	22.9%	25.5%
EBITDA Margin	25.7%	25.7%	20.5%	24.0%	10.3%
NI Margin	12.4%	33.3%	7.8%	15.8%	5.2%

Liquidity Ratios

	2017	5-Year			Industry Average
		High	Low	Average	
Current Ratio	1.5x	3.1x	1.3x	2.14x	2.54x
Quick Ratio	1x	2.3x	1x	1.32x	1.64x
Total Debt/Equity	72%	109%	72%	88%	92%
Total Liab/Total Assets	51%	62%	51%	56%	70%

Competition

Ticker	Company	Market Cap	Price	Beta	Outstand.	Avg Volume	EPS	Div	Return			Valuation					
									ROA	ROE	ROI	P/E	PEG	P/S	P/B	P/Cash	P/FCF
WY	Weyerhaeuser Company	27.04B	35.6	1.42	750.83M	2.60M	0.49	3.55%	4.6%	9.4%	4.8%	72.89	14.6	3.9	3	54.4	-
RYN	Rayonier Inc.	4.07B	31.6	0.46	128.15M	463.21K	1.06	3.15%	4.6%	8.7%	10.1%	29.93	5.99	5.2	2.62	39.06	41.07
UFPI	Universal Forest Products, Inc.	2.31B	38	1.85	60.23M	385.29K	1.78	0.89%	7.5%	12.0%	11.1%	21.62	4.32	0.6	2.47	70.51	-
PCH	Potlatch Corporation	2.07B	51.2	1.47	40.41M	459.10K	2.16	3.13%	9.4%	52.7%	5.4%	23.66	4.73	3.1	10.9	-	24.26
PATK	Patrick Industries	1.69B	66.5	0.99	24.72M	132.44K	2.96	-	11.2%	25.0%	13.7%	23.06	2.01	1.1	4.93	263.42	27.91
BCC	Boise Cascade Company	1.54B	40.1	2.11	38.66M	533.52K	1.74	0.70%	4.4%	11.2%	5.9%	22.93	4.59	0.4	2.38	8.96	19.38
DEL	Deltic Timber Corporation	1.10B	91	0.92	12.08M	192.93K	0.77	0.44%	1.7%	3.7%	3.7%	118	5.9	4.8	4.3	186.2	189.4
EVA	Enviva Partners, LP	740.88M	27.8	-	26.46M	65.83K	0.15	8.11%	0.7%	1.6%	5.1%	184.2	-	1.5	2.63	77.99	-
CTT	CatchMark Timber Trust, Inc.	573.49M	13.2	0.66	42.83M	259.61K	-0.4	4.03%	-1.9%	-3.6%	-0.6%	-	-	6.4	1.46	48.6	139.9
POPE	Pope Resources	306.42M	70.1	0.29	4.36M	2.01K	2.19	3.98%	2.5%	16.6%	2.8%	32.03	-	3.2	5.58	71.26	41.98
JCTCF	Jewett-Cameron Trading Company	33.70M	15.5	0.77	2.21M	3.45K	1.2	-	12.9%	14.4%	13.7%	12.71	-	0.7	1.73	5.71	17.74