

The wood industry includes forest product companies and manufacturers of lumber, as well as other wood products that are used in home construction, repair and remodeling along with the development of outdoor structures. The industry is also involved in the manufacturing and distribution of wood and plastic composite products along with related accessories mainly for residential decking and railing applications. Additionally, it includes timberland real estate or as it's categorized in the S&P 500: Specialty REITs.

The major players in the industry are Weyerhaeuser (WY), Louisiana-Pacific (LPX), Rayonier (RYN), PotlatchDeltic (PCH) and Boise Cascade (BCC).

Trends that influence the future of the wood industry begin and end with the U.S. housing market. Although the rise in mortgage rates and inflation fears have slowed the housing market recently, due to the continued demand and supply shortage, the wood industry can expect sustained growth in 2022. According to the U.S. Census Bureau, privately owned housing starts rose 22.3 percent year over year in February. The seasonally adjusted annual rate of nearly 1.77 million housing starts was up 6.8 percent from the previous month, meanwhile single-family housing starts increased 5.7 percent from the previous month. Even more so, building permits for private homes rose 7.7 percent year over year. All of this leads me to the point that: (1) construction costs will be lower as commodity prices decline and (2) more homes will be built in 2022 to mitigate the current supply and demand challenges.

However, the housing repair and remodeling market (one of the largest demands for lumber) could be the wild card in 2022. I can see renovations and remodeling becoming more expensive as interest rates rise even though the cost of the building material is on the decline.

| FIRM  | SYMBOL | 1-Year $\Delta$<br>in Price | YTD $\Delta$<br>in Price | IMPLIED<br>SHARE \$ | 52-WEEK<br>HIGH | 52-WEEK<br>LOW | PRICE ASSESSMENT |                     | OPERATING  |         |        |        |        |       |      |
|---|--------|-----------------------------|--------------------------|---------------------|-----------------|----------------|------------------|---------------------|------------|---------|--------|--------|--------|-------|------|
|   |        |                             |                          |                     |                 |                | From High        | From Val.           | ROE        | ROA     | MARGIN | D/E    | P/E    | P/B   |      |
| Weyerhaeuser Company<br><b>37.63</b> -0.23 (-0.61%)   | WY     | 2.48%                       | -9.22%                   | 40.75               | 43.04           | 32.65          | -12.57%          | -7.66%<br>Under     | ● Good buy | 25.83%  | 15.76% | 43.19% | 67.20% | 10.48 | 2.75 |
| Louisiana-Pacific Corp<br><b>63.90</b> -1.77 (-2.70%) | LPX    | -3.18%                      | -19.14%                  | 59.95               | 79.77           | 50.12          | -19.89%          | 6.59%<br>Over       | ▲ Neutral  | 109.08% | 57.72% | 47.34% | 65.34% | 3.84  | 3.41 |
| Rayonier, Inc.<br><b>38.60</b> +0.37 (+0.97%)         | RYN    | 2.91%                       | -4.43%                   | 54.71               | 45.87           | 33.58          | -15.85%          | -29.45%<br>Under    | ● Good buy | 9.88%   | 4.81%  | 20.41% | 83.94% | 32.27 | 3.06 |
| PotlatchDeltic Corp<br><b>53.20</b> -0.50 (-0.93%)    | PCH    | -9.20%                      | -11.33%                  | 59.42               | 61.77           | 48.82          | -13.87%          | -10.47%<br>Under    | ● Good buy | 28.06%  | 16.70% | 52.25% | 59.66% | 7.95  | 2.16 |
| Boise Cascade Co.<br><b>76.72</b> -1.29 (-1.65%)      | BCC    | 17.06%                      | 7.00%                    | 74.34               | 85.17           | 46.51          | -9.92%           | 3.20%<br>Fair Value | ▲ Neutral  | 62.72%  | 27.88% | 17.44% | 88.39% | 3.52  | 1.84 |

For the most part, the major players are undervalued as compared to a DCF stock valuation, with the exception of LPX and BCC. We rated LPX as neutral because although they are slightly overvalued in the market, their P/E and P/B ratios are very strong coupled with a decent operating margin as compared to their peers. Also, BCC is rated neutral because they are at fair value with the market, coupled with a lackluster operating margin as compared to their peers.

Otherwise, we believe you can't go wrong with either Weyerhaeuser, Rayonier, or PotlatchDeltic.