



TRADITION
INVESTMENT MANAGEMENT

Weyerhaeuser Offers Industry Leading Asset Portfolio

Price \$33.06

Dividend Holding

October 15, 2024

- 2.84% Yield.
- Industry-leading 90% of revenue comes from working timberland rather than leasing it for harvesting rights (stumpage)
- Largest timberland holdings in North America with more than 10.5 million acres.
- Long-term tailwinds from historic pent-up demand and lows in new housing.
- Timber assets generally appreciate with inflation and tree growth.

Investment Thesis

Weyerhaeuser (WY) is the largest timberland REIT in North America. It owns 10.5 million acres in the US, and licenses 14 million acres in Canada for logging. Additionally, it operates 35 mills with the capacity of 6 billion board feet per year in finished lumber and 4.1 billion square feet of flat and engineered lumber.

Asset	Asset Value (Per Share)	% of total
Timberland	\$39.35	89.6%
Other	\$0.68	1.5%
Milling inventory	\$0.84	1.9%
PPE	\$3.07	7.0%
Total	\$43.94	-

Timberland assets are net of depletion. PPE is net of depreciation. Other includes in-progress construction of facilities, and value of Canadian timber rights.

While there is currently a soft market due to both uncertain economic conditions and high interest rates, the Fed rate cuts will spur a recovery in the lumber market. With 77% of housing stock in the US built before 2000, there is substantial pent-up demand on the horizon for housing construction. The US is still short more than 4.5 million housing units despite around 1.5 million new units built in 2023. According to Realtor.com, there were 1.7 million new renter/owner aged households created in 2023. Until the upswing, we believe that WY is in an industry-leading financial position backed by the largest timberland asset portfolio in North America and has a very safe 2.4% yield.

Estimated Fair Value

EFV (Estimated Fair Value) = EFY25 FFO (Funds from Operations) times P/FFO (Price/FFO)



TRADITION

TRADITIONMENT.COM

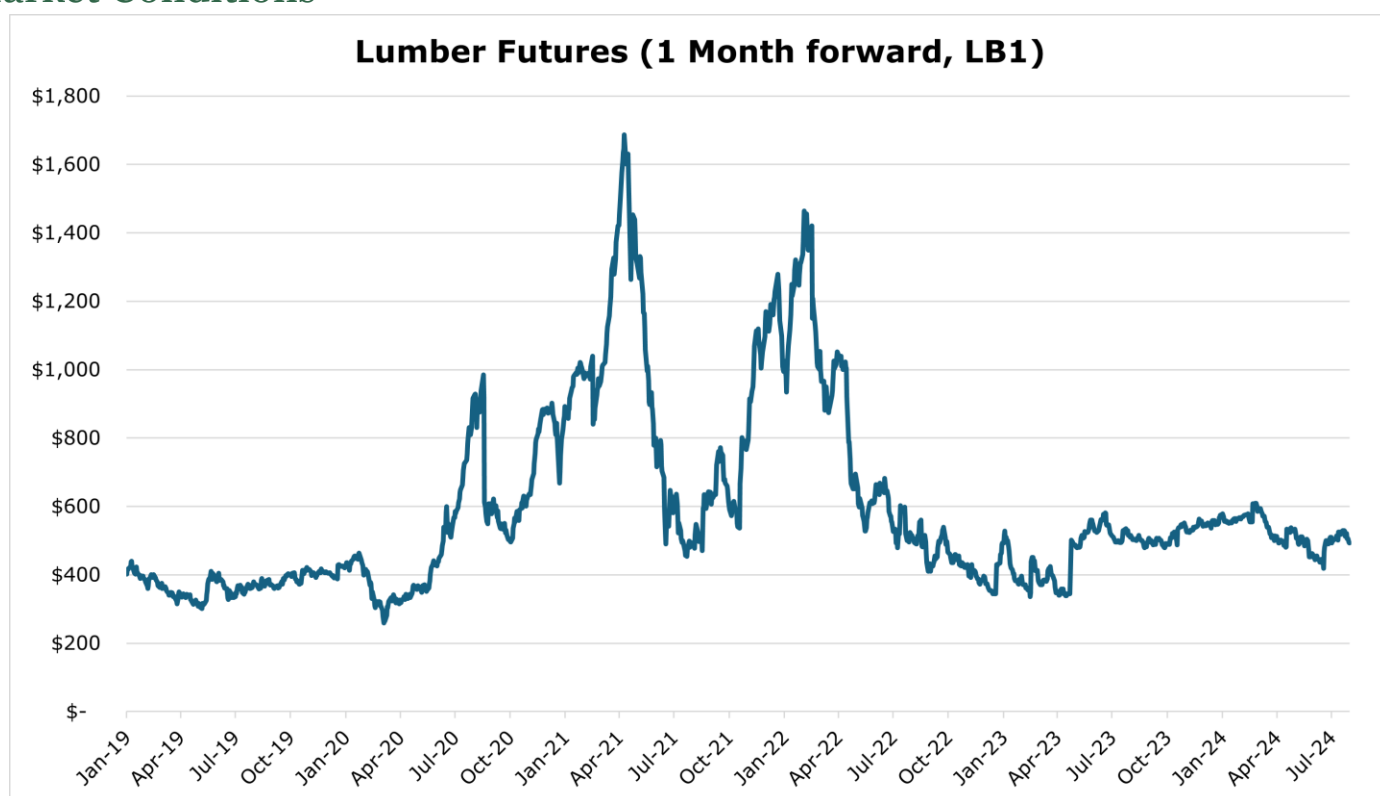
(850) 418-6182

$$EFV = E25 \text{ FFO} \times P/\text{FFO} = \$1.75 \times 23.1x = \$44.43$$

While we expect some headwinds in funds from operations due to lumber pricing continuing to slump, we believe WY trades at a discount to its asset value and earnings power. Thus we feel that a price to funds from operations ratio of 23.1x both brings it more in line with our estimate of its massive asset value and earnings potential from its continued footprint and output expansion.

	E2024	E2025	E2026
Price-to-Sales	3.3	3.1	2.9
Price-to-Funds from Operations	26.9	19.0	16.9

Market Conditions



As discussed in our PotlatchDeltic article, [the slump in lumber prices has taken a toll on mill assets](#), with more than 1.6 billion board feet capacity closing across 13 mills in North America – or around 2% of total capacity.

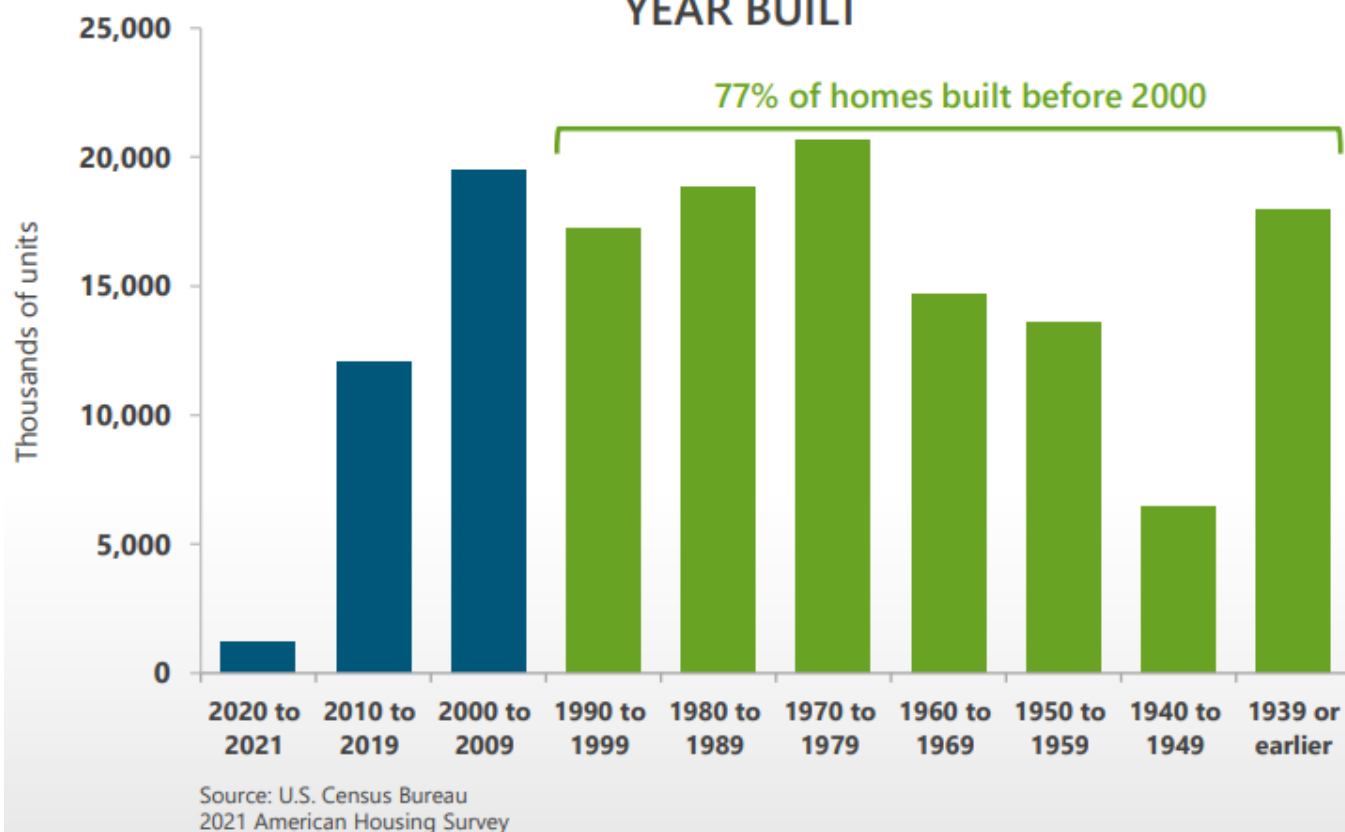


TRADITION

TRADITIONMENT.COM

(850) 418-6182

U.S. HOUSING STOCK YEAR BUILT



Lower rates should help housing starts and drive increased lumber demand which will in turn improve timber volumes and possibly pricing. [For a more detailed view, see our PotlatchDeltic article.](#)

Core Business

6 Months Ending June 2024		
Segment	% of Total Revenue	EBIT Margin
Timberland	21.3%	20.2%
Wood Products (Mills)	72.9%	55.1%
Real Estate	5.8%	11.9%
Company Wide	-	12.4%

WY derives 90% of its timberland revenue from harvesting, rather than stumpage (the right to harvest). The closest competitor is PotlatchDeltic, with 81% harvesting.

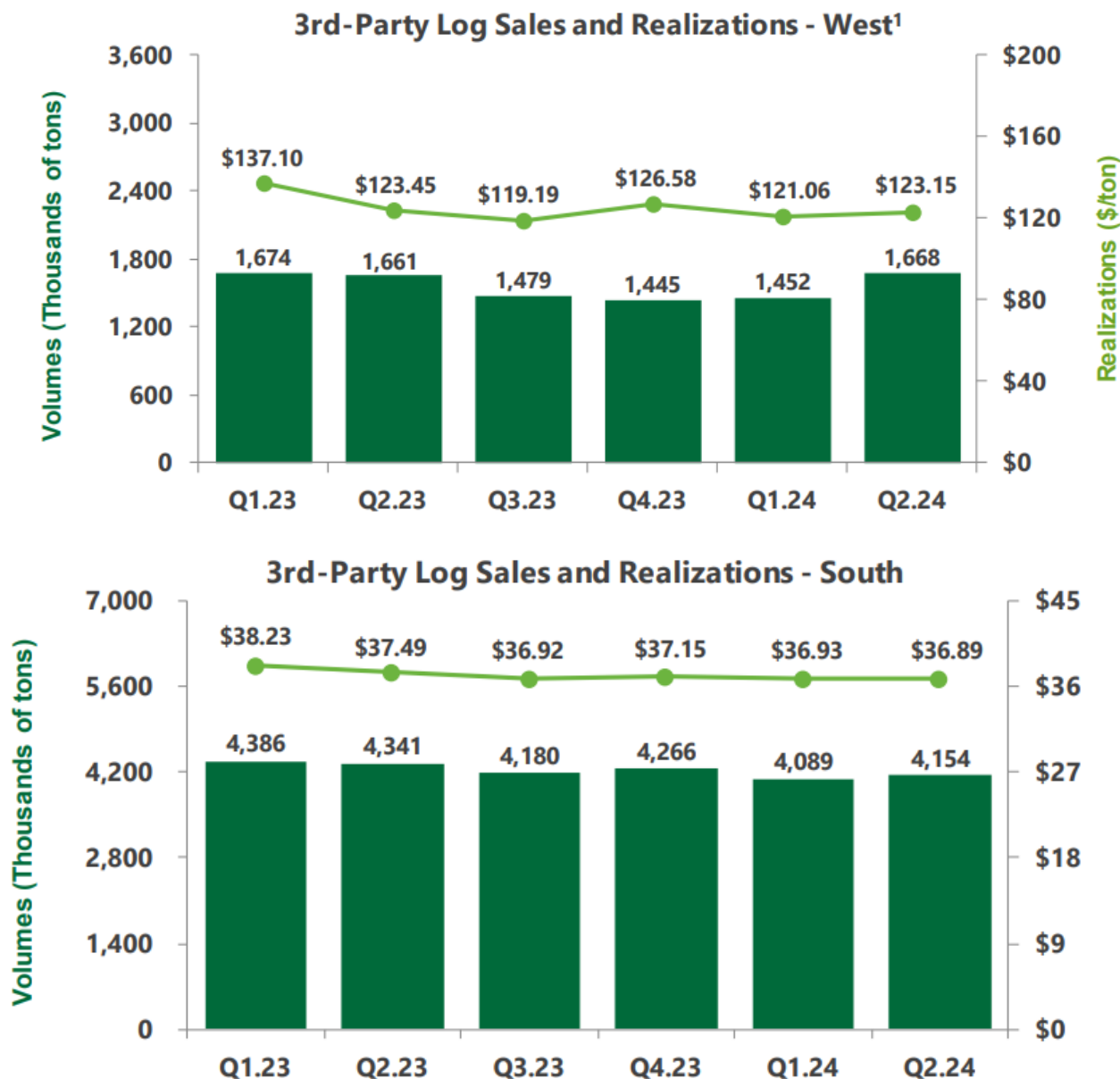


TRADITION

TRADITIONMENT.COM

(850) 418-6182

For the quarter ending June 2024 the West and North regions saw higher price realizations on a year-over-year basis, with the South remaining flat. The South and West had slightly better volumes thanks to favorable weather conditions.



WY Investor Relations

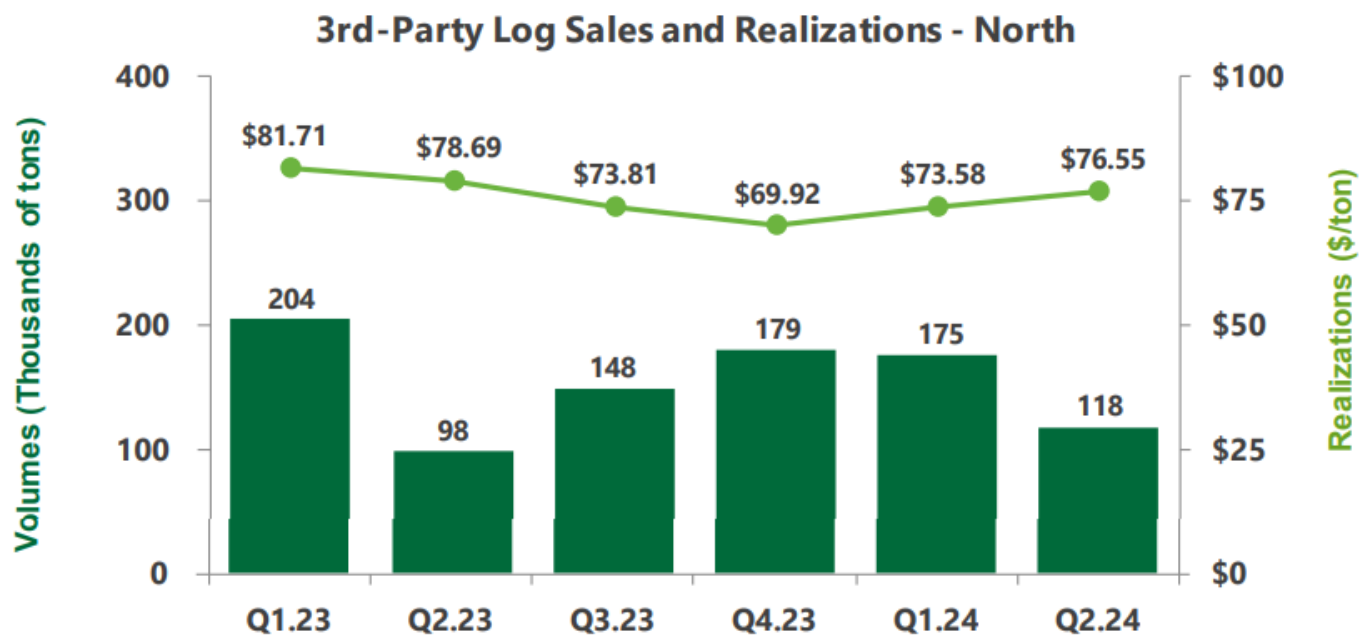
The North however had much lower volumes due to muddy conditions in late spring. For the first half of 2024, timberland had an operating margin of 15% which is in line with expectations and ahead of peers.



TRADITION

TRADITIONMENT.COM

(850) 418-6182



- Western logs are primarily transacted in MBF but are converted to ton equivalents for external reporting purposes.

WY Investor Relations

Compared to competitors, WY's large pacific northwest holdings has given it a large export business, including a 'multi-decade relationship' with Japanese developers. For the full year 2023 WY exported 24% of its northwest timber, with approximately 67% of exports going to Japan. We feel this number could continue to grow in both volume and price realizations with the continued curtailment of lumber operations in British Columbia.

WY plans to increase its footprint in the western and southern timberlands, embarking on \$1 billion in acquisitions by 2025, of which it has spent \$775 million and acquired 251.8 thousand acres of timberland so far.

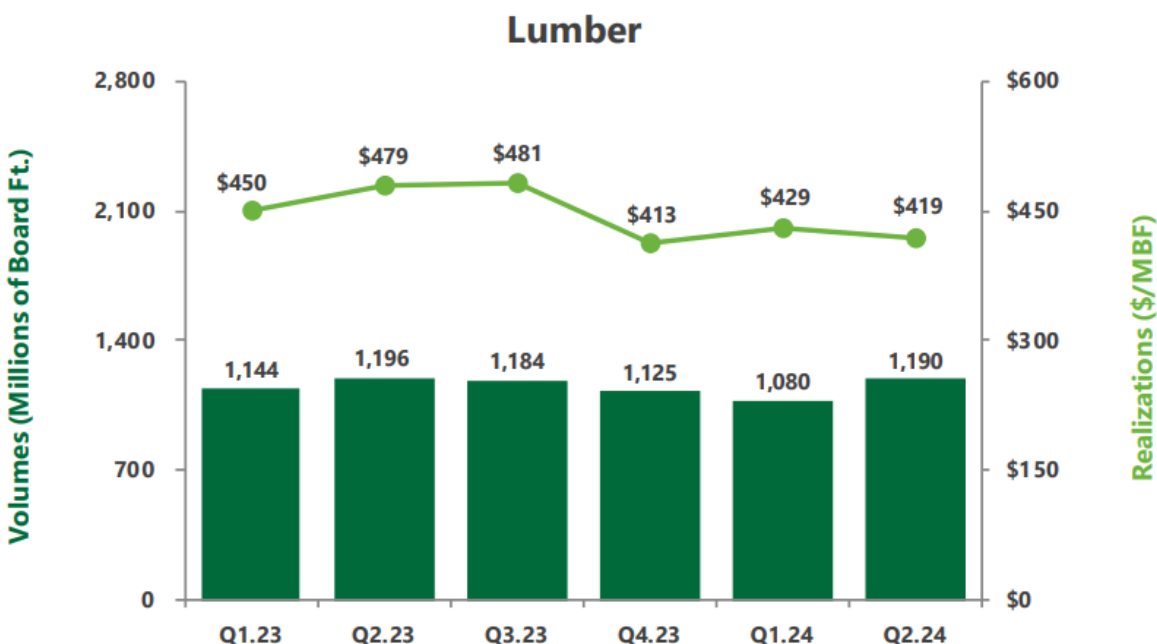
The Wood Products segment represents all milling operations. WY is the second largest board lumber producer in the US, and the #1 engineered wood producer. As of the quarter ending June 2024, WY has 12% operating margin for milling operations despite the large overcapacity present in the US. Sales for board lumber decreased by 2% year over year, with prices falling by 14.3%.



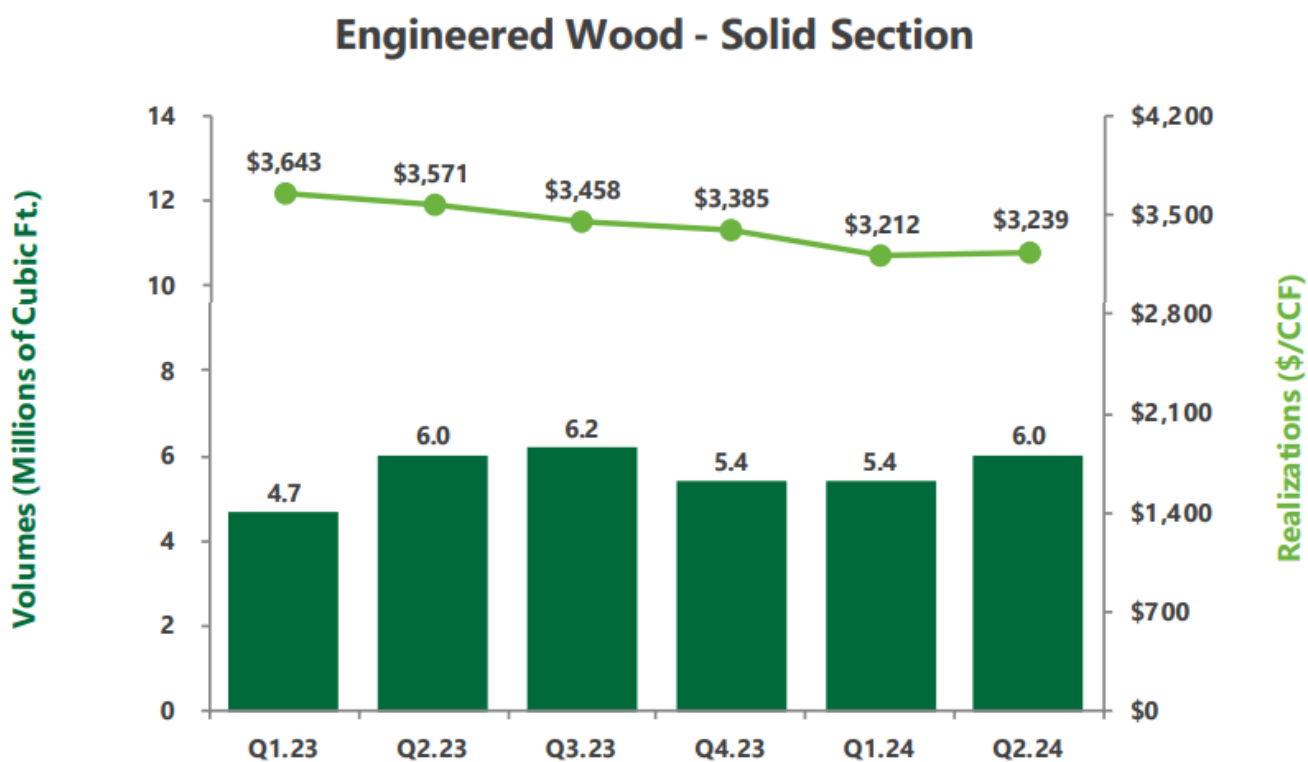
TRADITION

TRADITIONMENT.COM

(850) 418-6182



In engineered and particle board products, realized prices experienced a steady decline, with volumes remaining flat.



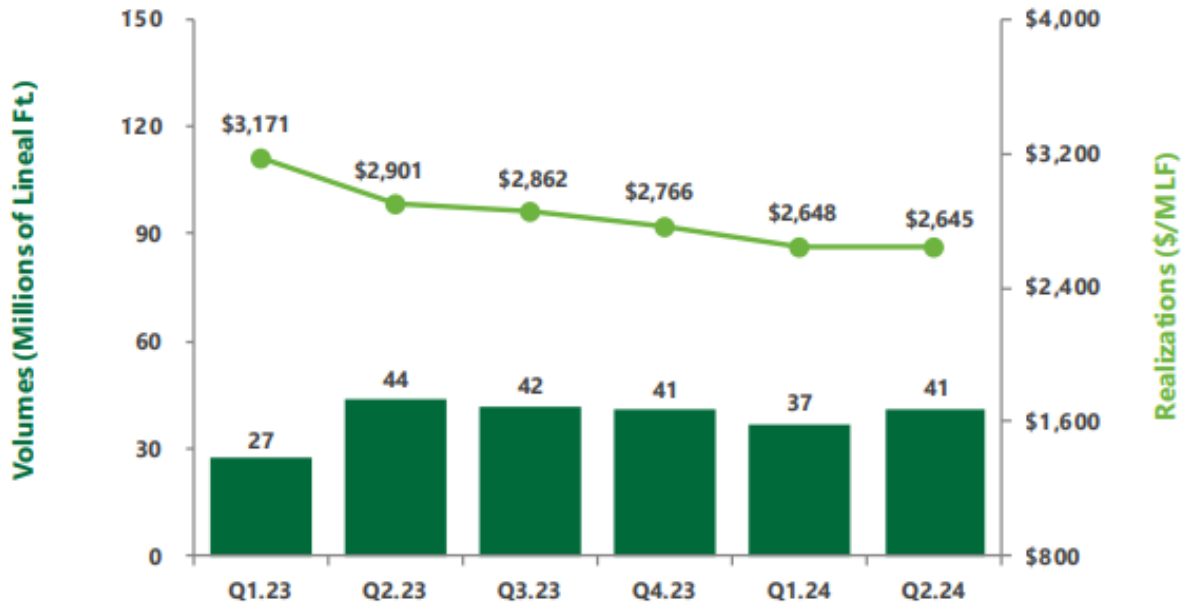
TRADITION

TRADITIONMENT.COM

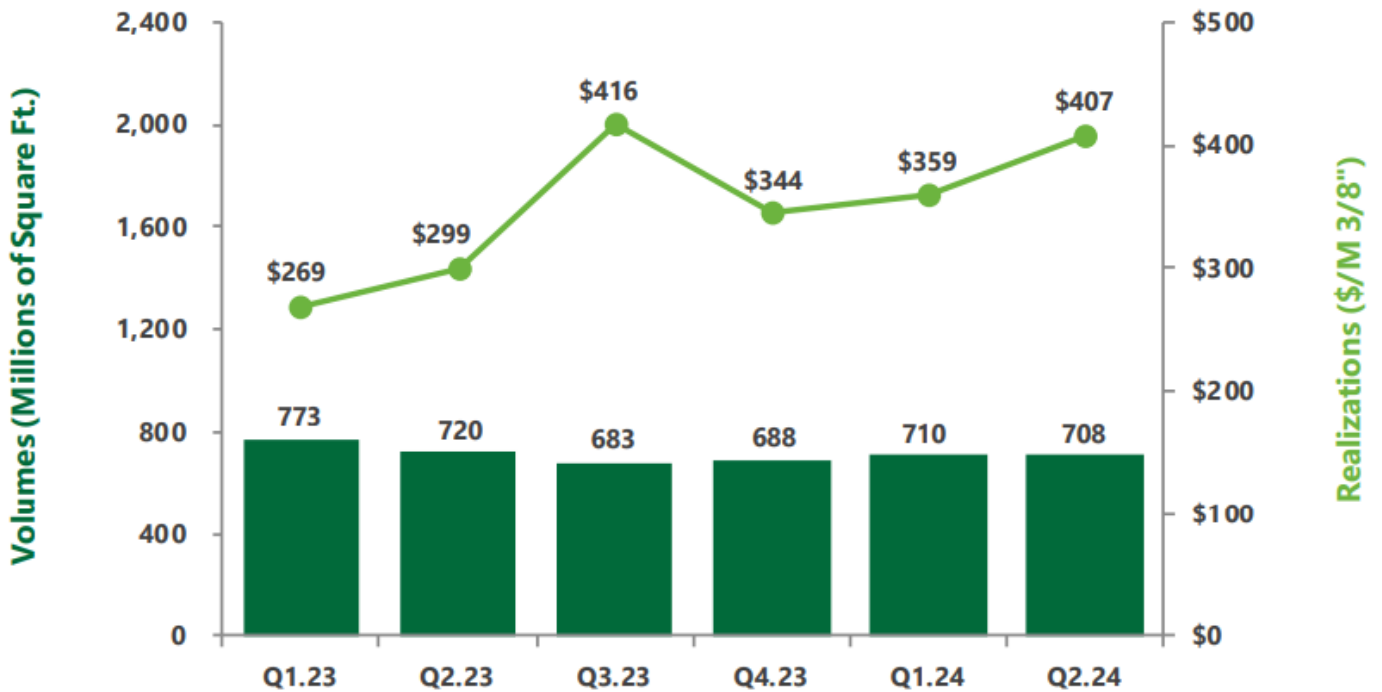
(850) 418-6182

As previously discussed, real estate starts have hit cyclical lows. We believe that as consumers and developers price in interest rate decreases, housing starts will increase in tandem.

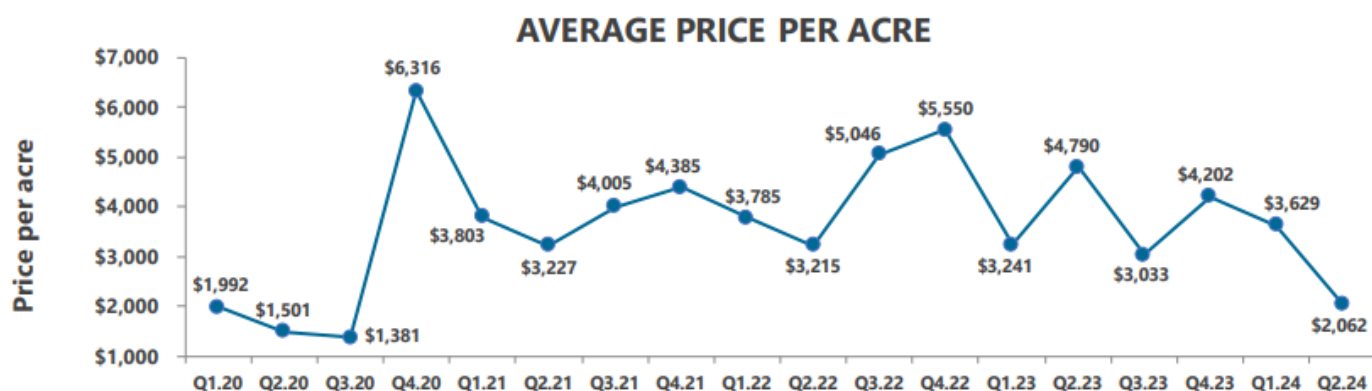
Engineered Wood - Solid TJIs



OSB



Finally, the ENR (real estate, energy, natural resources) business makes up both solar and mining contract options and real estate sales. For the first half of 2024, the ENR segment has an operating margin of 55%, offering EBITDA of \$119 million. More specifically, WY is targeting growing the energy and natural resource component of the business to \$100 million in EBITDA per year by 2025. For the first half of 2024, that smaller component of the ENR segment reported \$53 million in EBITDA. In our view, the shift toward more energy and natural resource contracts shows the company's flexibility and initiative to maximize value from its vast asset base.



WY Investor Relations

Risk

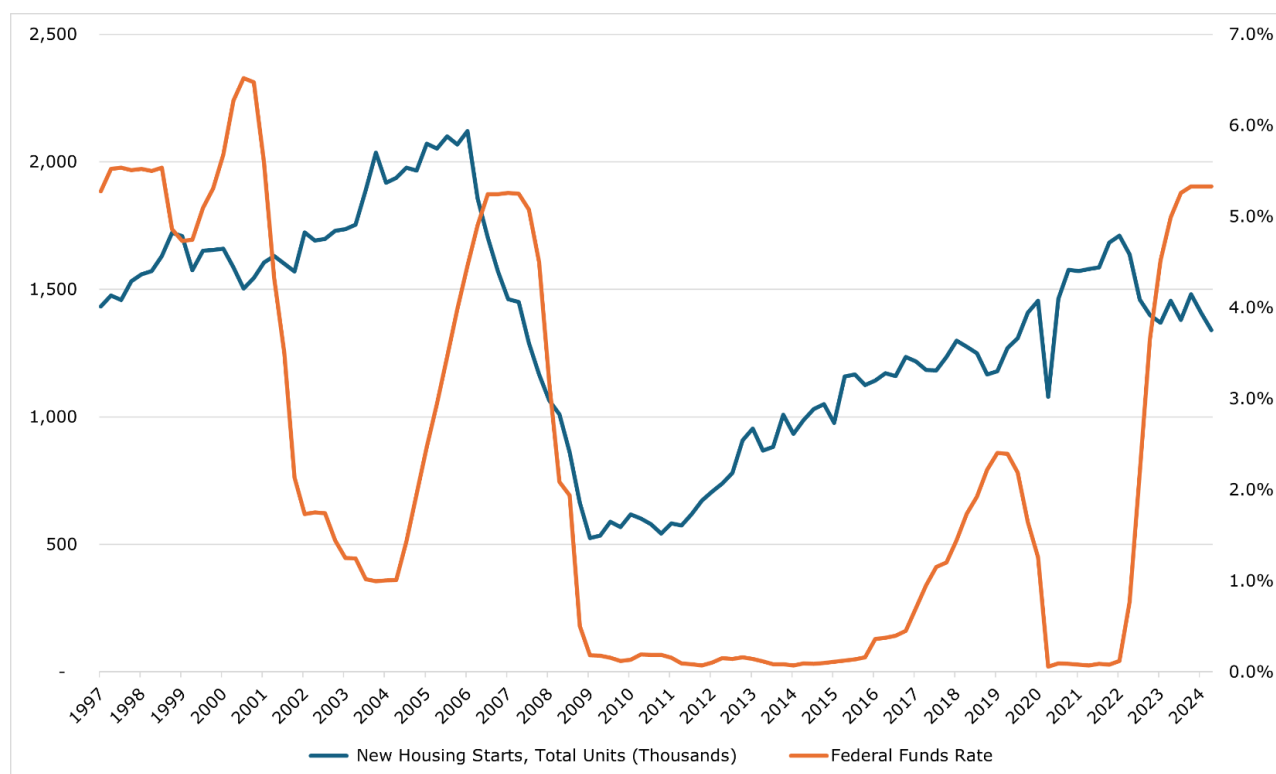
Given the slowdown in housing, there is still a substantial oversupply of lumber mill capacity in North America. We remain uncertain when an upswing in construction will occur, as it typically lags rate cuts by a year.



TRADITION

TRADITIONMENT.COM

(850) 418-6182



Given WY's business is almost exclusively linked to timber and production of finished wood products, if the economy deteriorates further from here it would likely harm the profitability of WY and therefore the dividend would be at risk.

Financials

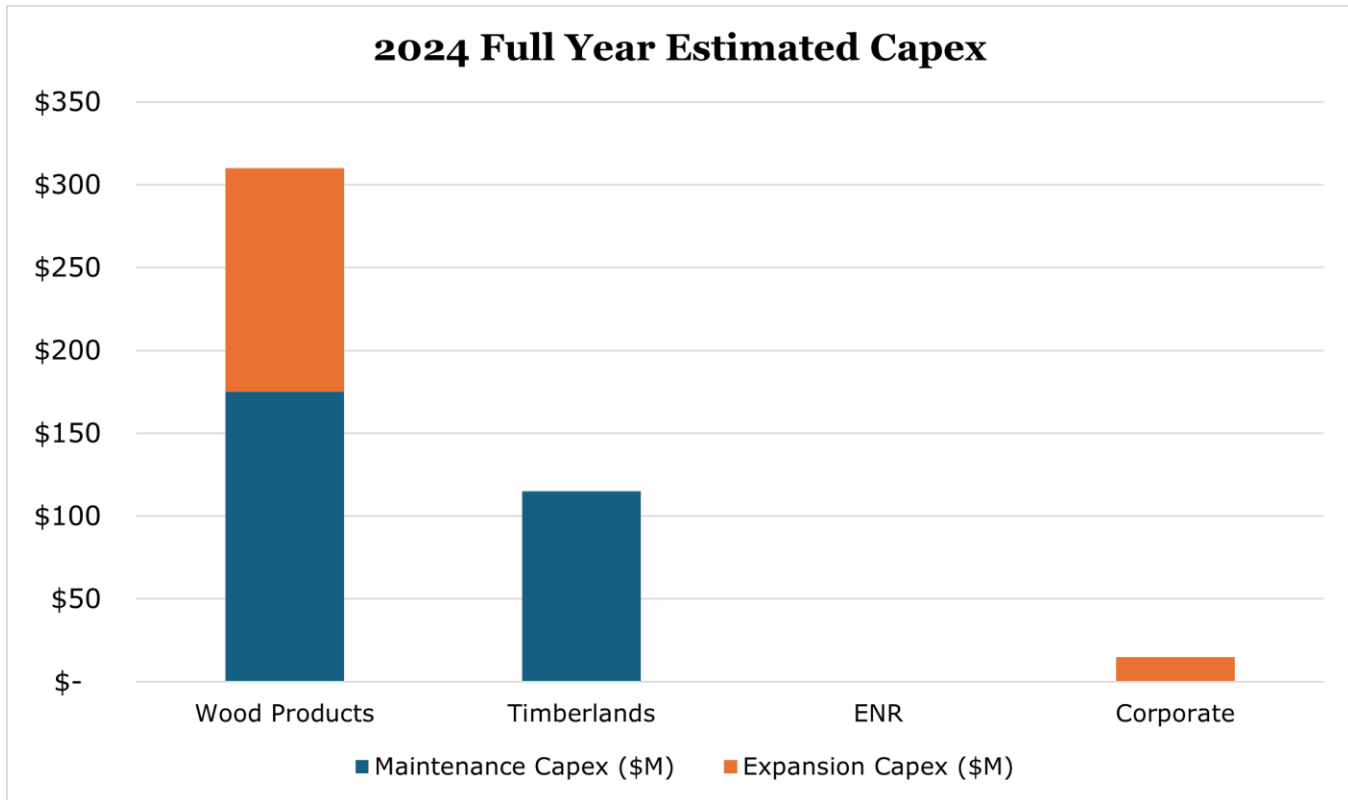
Historically WY spends between \$440-\$470 million on capex per year, expecting 2024 to end with \$440 million in capex. Though, management has stated that it is targeting a small contraction down to \$420-440 through 2025. Generally, around 66% of capex spending is utilized for maintenance operations including purchasing more acres to replace depleted timberland assets or buying new equipment in the wood products segment. The largest component of expansionary spending in 2024 is continuing a large sawmill modernization project to support continued footprint expansion in the south.



TRADITION

TRADITIONMENT.COM

(850) 418-6182



WY Targets 75-80% of funds available for distribution (funds from operations less capex) to be paid out to investors through both dividends and share repurchases. Additionally, it targets around 5% of annual base dividend growth, currently yielding 2.84% or \$0.94 per year. The remaining cash is available for acquisitions, debt paydown, or for additional share repurchases.

Currently, WY has a BBB rating on its debt, with a net debt to EBITDA of 3.2x below its 3.5x target. While 3.2x may be considered a high figure for a commodity market that is

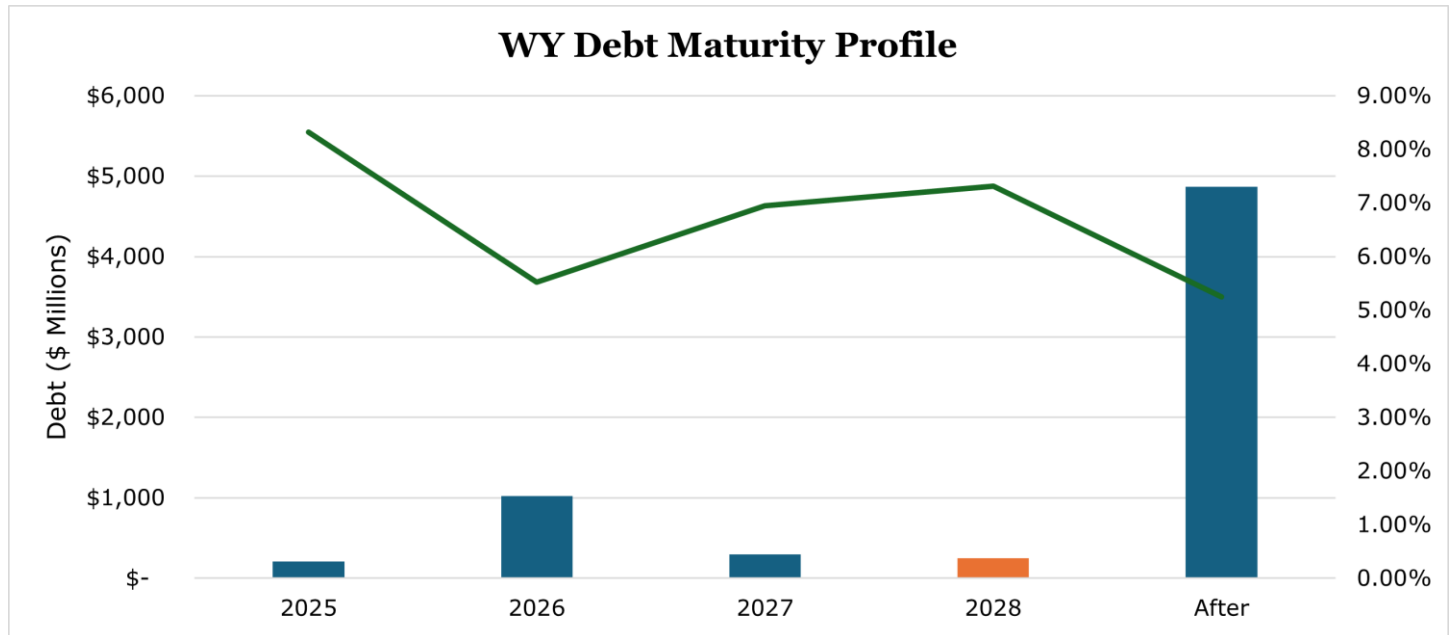


TRADITION

TRADITIONMENT.COM

(850) 418-6182

highly cyclical, WY has a substantial holding of real assets to back the debt and a trailing twelve-month free cash flow of \$1 billion.



2024 has no debt maturing.

Conclusion

WY leads the timber REIT sector in financial position, margins, and scale. Despite the down cycle seen in the lumber market, there are long-term tailwinds for construction and some short-term pricing tailwinds from shutdown of Canadian lumber assets. While we are unsure when the upcycle will begin, investors can take advantage of WY’s 2.8% dividend yield backed by both its real asset holdings and \$1 billion in annual free cash.

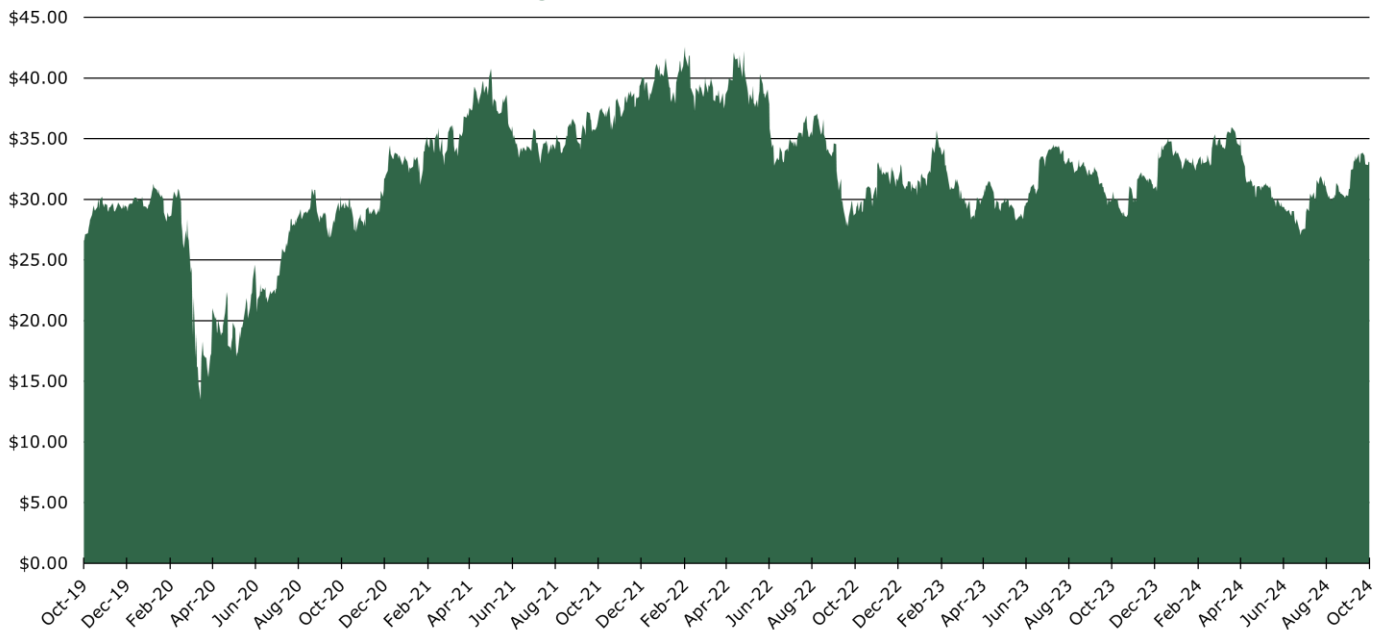
Peer Comparisons

	Weyerhaeuser (WY)	PotlatchDeltic (PCH)	Rayonier (RYN)
Price-to-FFO	26.9	16.6	19.8
Price-to-Sales (TTM)	3.20	3.20	4.48



Price-to-Book (TTM)	2.40	1.63	2.61
Net Income Margin	9.89%	3.45%	14.78%
Dividend Yield	2.84%	4.13%	3.60%

Weyerhaeuser (WY)



Disclaimer and Related Information

This article or video features Benjamin C. Halliburton, CFA or an investment idea(s) that Mr. Halliburton or Tradition Investment Management, LLC (Tradition) may invest in. Mr. Halliburton is the founder and owner of Tradition Investment Management, LLC, a registered investment adviser. Tradition is doing business as (DBA) Building Benjamins in the publishing, email, and website space. All material on the website should be considered paid advertising by Tradition. This article is a financial publication and is provided for educational purposes only. It is not an investment recommendation nor investment advice. It does not take into account your personal circumstances and whether this investment is appropriate for you, your objectives, or your risk tolerance. Under no circumstance is Building Benjamins or Tradition Investment Management LLC responsible for any actions that you may take after reading this educational information. Nothing from Building Benjamins should be considered personal investment advice. Building Benjamins and Tradition Investment Management LLC, the website, emails, interviews, social media pages, and other materials are published by Building Benjamins and do not necessarily match the opinions of the individuals or companies published or quoted herein. Investing, particularly stock or ETF investing, is risky and may result in losses and sometimes loss of your entire investment. Stock investing has company-specific operational risks like demand, competition, legal and regulatory, and broader financial market risks like liquidity, Economic cycle, and government policy. You may lose money in any stock investment or other investments and are solely responsible for those decisions.

Mr. Halliburton, Tradition Investment Management LLC, and/or the authors on this site may or may not have positions in the securities discussed in this educational report. Neither the author(s) nor Tradition Investment Management, LLC will knowingly trade ahead of any customer buy or sell resulting from this information. The information herein is shared as an educational endeavor. Mr. Halliburton, Tradition Investment Management LLC, and/or the authors on this site may transact in the security discussed at a later date, prior to, or without notification in this format. This is not investment advice but only a discussion of select investments for educational purposes. Building Benjamins is an investment website, blog, or newsletter, and the information contained cannot be reproduced, copied, or redistributed without the prior written authorization of Building Benjamins or Tradition Investment Management LLC. US copyright laws apply. We rely on information from sources we believe reliable, including the companies themselves, but cannot guarantee the accuracy of the information we provide. You rely on this information at your own risk and are responsible for the verification of the data.



TRADITION

TRADITIONMENT.COM

(850) 418-6182