



## Lumber – Supercycle or Not?

### Description

After years of being completely ignored, the lumber/forestry sector has been top of mind for many investors of late. Thanks to a bottom being found in U.S. housing, and a potential recovery underway, this sector's been hot.

This morning's Globe and Mail however offers up a conflicting view of the industry's future prospects. In one article, a recently published bullish argument from a sell-side analyst is summarized. In another, one of this country's most respected financial companies is reducing its exposure. What's going on?

### Sell-side

Over the past 10-years or so, analysts that cover the forestry industry have been run through the wringer. The record rise and fall of the U.S. housing market caused these analysts to go from being highly sought out, to completely ignored.

Now that the industry is rebounding, their opinions are once again registering with investors. RBC's forestry analyst believes that the industry (and therefore his opinion) is now in the formative stages of a "supercycle".

A combination of buoyant U.S. housing and demand from China, paired with a supply-base that has been decimated by the mountain pine beetle throughout Western North America means companies like **West Fraser Timber** (TSX:WFT) and **Canfor** ([TSX:CFP](#)) are set to cash-in over the next several years.

The problem I have with this argument is that the stocks of these two companies, as well as their industry peers, have already had massive moves. Over the past year alone, WFT and CFP have climbed by 66% and 56% respectively and this has [left their valuations perched at a historic high](#). For these stocks to continue to appreciate, there is seemingly no other option than the emergence of this "supercycle".

### Brookfield

And it seems like **Brookfield Asset Management** (TSX:BAM.A,NYSE:BAM) agrees.

This morning it was announced that BAM and its affiliated **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#)) have agreed to sell a combined \$3.7 billion worth of forestry related assets. In one part of the deal, **Weyerhaeuser** is acquiring 645,000 acres of U.S. Pacific North West timberlands for a price of \$2.6 billion from BAM. In the other, KapStone Paper and Packaging Corp. is acquiring a paper mill and seven U.S. Pacific North West container plants from BIP.

Timberland assets in particular are rare, and to see them being sold by a savvy player such as Brookfield indicates the valuation being paid is probably very full. From Brookfield's standpoint, future returns from these assets are likely to be exceeded by other opportunities in the market.

### Foolish Takeaway

So who's right? We won't know for some time, however, my bet is on the player with real skin in the game. Analysts have a variety of reasons for arriving at a specific conclusion. Brookfield has just one. Make money. Be like Brookfield. Be wary of valuation if you're looking to wade into this space.

Forestry was a beaten down resource for many years that is now surging. We have created a special **FREE** report that outlines a currently neglected resource that is poised to experience a similar resurgence. To receive "**Fuel Your Portfolio With This Energetic Commodity**" simply [click here](#) and we'll send you the report, absolutely free!

*The Motley Fool's purpose is to help the world invest, better. [Click here now](#) for your free subscription to **Take Stock**, The Motley Fool Canada's free investing newsletter. Packed with stock ideas and investing advice, it is essential reading for anyone looking to build and grow their wealth in the years ahead.*

[Follow us on Twitter](#) and [Facebook](#) for the latest in Foolish investing.

*Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.*

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:BN (Brookfield)
4. TSX:CFP (Canfor Corporation)
5. TSX:WFG (West Fraser Timber Co. Ltd.)

### Category

1. Investing

### Date

2025/09/16

**Date Created**

2013/06/17

**Author**

tmfohcanada

default watermark

default watermark