



## Louisiana-Pacific Ponies Up for Ainsworth Lumber

### Description

The recent trend towards corporate hook-ups continues. **Louisiana-Pacific** ([NYSE:LPX](#)) is set to acquire B.C.'s **Ainsworth Lumber** (TSX:ANS) in a deal valued at about \$1 billion as of last night's close. Ainsworth shareholders will receive some combination of cash and LPX stock once the dust settles. This amounted to \$3.76 per Ainsworth share when announced, and represented a 28% premium over yesterday's close.

With a 54% stake, Ainsworth's largest shareholder is **Brookfield Asset Management** (TSX:BAM.A, NYSE:BAM). Brookfield has indicated it will take 52% cash and 48% LP stock in exchange for its stake.

### Ramifications

This deal is likely to have an impact on valuations throughout Canada's forestry space, especially for Ainsworth's closest peer, **Norbord** (TSX:NBD). Not only do both companies produce oriented strand board (OSB), a plywood substitute, but both nearly went bust during the financial crisis, and both sport Brookfield as a significant owner.

At an indicated price of \$3.76 per share, LP is paying 2.1 times Ainsworth's most recent book value per share. At first glance, this looks like a rather hefty price tag. However, when we compare it to the 2.8 times book that Norbord currently trades, it doesn't look so bad.

To help justify this "discounted" multiple, it's important to realize that Norbord is the superior company here. They are the low-cost producer in the space and have mills located in the U.S. south that have much better exposure to the U.S. housing recovery than Ainsworth's B.C. based operations.

### Bigger picture

Let's quickly consider the bigger picture though. Brookfield is known to be a very shrewd investor – if they're selling, something's up. Well, that something could well be that the Canadian forestry sector is currently trading at unheard of valuations. The multiples mentioned above are much higher than long-term averages indicate these companies should trade. Or, perhaps in Brookfield's mind, will trade at

again one day. The following table provides more fuel to the case for over-valuation in the sector.

Company Name	Current Price-Book	10 Yr Avg Price-Book
Ainsworth Lumber	2.1	1.1
Norbord	2.8	2.1
<b>West Fraser</b> (TSX:WFT)	2.1	1.1
<b>Canfor</b> ( <a href="#">TSX:CFP</a> )	2.3	1.1

Source: Capital IQ

### The Foolish Bottom Line

If you ever find yourself being asked to buy something from a pro like Brookfield, be highly, *highly* skeptical. Brookfield swooped into Ainsworth at the credit-crisis lows and is now monetizing its investment. The company followed a similar playbook with Norbord, which it has effectively spun-out once before, years ago. It shouldn't come as a surprise then to see a large block of Brookfield's Norbord shares be made available in the very near future. If this occurs, and you're tempted to pick some up, remember who the seller is.

Because of their cyclical nature, investing in forestry related companies is very hard. For a smoother ride to big gains, [click here now](#) and we'll send you our special **FREE** report "[3 U.S. Companies That Every Canadian Should Own](#)".

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*Fool contributor Iain Butler doesn't own shares of any companies mentioned. The Motley Fool doesn't own shares in any of the companies mentioned.*

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

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