



West Fraser Timber Co. Ltd. Tops \$1 Billion in Q1 Sales. Should You Buy Now?

Description

West Fraser Timber Co. Ltd. (TSX:WFT), one of the largest integrated wood products companies in North America, announced better-than-expected first-quarter earnings results after the market closed on April 23, and its stock has responded by rising over 5%. Let's take a closer look at the quarterly results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

Breaking down the better-than-expected results

Here's a summary of West Fraser's first-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$1.19	\$0.94	\$0.97
Total Revenue	\$1.01 billion	\$909.9 million	\$809 million

Source: *Financial Times*

West Fraser's adjusted earnings per share increased 22.7% and its total sales increased 25.3% compared with the first quarter of fiscal 2014. The company's double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 19% to \$100 million, helped by its weighted average number of diluted shares outstanding decreasing 2.6% to 84.95 million.

Its very strong revenue growth can be attributed to revenues increasing in all three of its business segments, including 30.5% growth to \$655 million in its Lumber segment, 17.9% growth to \$230 million in its Pulp & Paper segment, and 15.2% growth to \$129 million in its Panels segment.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Sales in the United States increased 22.8% to \$533 million
2. Sales in Canada increased 13% to \$218 million

3. Sales in China increased 57.7% to \$164 million
4. Sales in Asia (excluding China) increased 56.9% to \$80 million
5. Sales in all other regions decreased 29.6% to \$19 million
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 16.1% to \$173 million
7. Operating earnings increased 17.9% to \$125 million
8. Total assets increased 4.5% to \$3.55 billion

Could your portfolio use a timber stock?

Even after the post-earnings pop in West Fraser's stock, I think it represents an attractive long-term investment opportunity. It still trades at favourable forward valuations, including just 13.5 times fiscal 2015's estimated earnings per share of \$4.81 and only 10.1 times fiscal 2016's estimated earnings per share of \$6.40, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 22.5.

I think West Fraser's stock could consistently command a fair multiple of at least 15, which would place its shares upwards of \$72 by the conclusion of fiscal 2015 and around \$96 by the conclusion of fiscal 2016, representing upside of more than 10% and 47%, respectively, from today's levels.

With all of the information provided above in mind, I think West Fraser Timber represents one of the best long-term investment opportunities in the wood products industry today. Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:WFG (West Fraser Timber Co. Ltd.)

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