



Should You Buy or Avoid West Fraser Timber Co. Ltd. Today?

Description

West Fraser Timber Co. Ltd. (TSX:WFT), one of the largest integrated wood products companies in North America, announced second-quarter earnings results after the market closed on July 21, and its stock responded by falling over 4% in the trading session that followed. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or a warning sign to avoid the stock for the time being.

Lower lumber prices lead to very weak results

Here's a summary of West Fraser's second-quarter earnings results compared to its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Adjusted Earnings Per Share	\$0.16	\$0.77
Total Revenue	\$1.03 billion	\$1.05 billion

Source: *West Fraser Timber Co. Ltd.*

West Fraser's adjusted earnings per share decreased 79.2% and its revenue decreased 2.3% compared to the second quarter of fiscal 2014. The company noted that these very weak results could be attributed to the "sharp decline in U.S. lumber prices" and "increased inventory write downs," which more than offset the positive impact of improved production.

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

1. Revenues decreased 2.8% to \$702 million in its Lumber segment
2. Revenues decreased 2.7% to \$220 million in its Pulp & Paper segment
3. Revenues increased 2.3% to \$136 million in its Panels segment
4. Adjusted earnings before interest taxes, depreciation, and amortization (EBITDA) decreased 51.4% to \$72 million

5. Operating earnings decreased 83% to \$18 million
6. Cash provided by operating activities decreased 17.8% to \$194 million

Should you buy West Fraser's stock on the dip?

It was a very weak quarter for West Fraser, so I think the post-earnings drop in its stock was warranted. I also think the stock could continue lower from here, because lumber prices remain depressed, which means all bets are off when it comes to the company's earnings estimates for fiscal 2015, making it nearly impossible to place a fair value on its shares today.

With all of the information above in mind, I think Foolish investors should avoid West Fraser today and look elsewhere for an investment instead.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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