



## Billionaire Jim Pattison Owns 58 Million Canfor Corporation Shares: Should You Buy, Too?

### Description

Many regular investors like to see what the greats are up to. After all, if you're going to copy someone, why not start with the best?

So whenever Warren Buffett, Bill Ackman, Prem Watsa, or George Soros take a position in a stock, the whole investing world sits up and notices. If one of the greats like a company, it must be a good opportunity. I've seen stocks pop 5%, 10%, even 20% in value just on news that a superinvestor has taken a stake in the company.

There are some billionaire investors who don't as much attention as the others I listed. One is Jim Pattison, who turned a single car dealership into one of Canada's largest privately held companies. According to recent estimates, Pattison is worth more than \$8 billion. Because Pattison's company is private, he can operate under the radar.

Although most of Pattison's wealth is held in his company, he also holds a few outside investments. One of the largest is his stake in **Canfor Corporation** ([TSX:CFP](#)), one of Canada's largest forestry companies. Pattison's 58.7 million shares are currently worth \$867 million.

Canfor is a long-term holding for the B.C. billionaire. He's held his stake for years now, first buying shares around the turn of the millennium and then adding more in 2011-12. Pattison also helped lead an overthrow of then-CEO Jim Shepard in 2007, a move which helped the company stem its losses and survive the 2008-09 financial crisis.

Currently, shares of Canfor are flirting with lows not seen since 2012. Should you join Pattison in this investment, or is Canfor on the verge of heading even lower?

### The bear case

One reason why Canfor shares have sunk is because investors are using it as a proxy on the Canadian housing market. Many people believe our homes are wildly inflated in price and a crash is coming. Such an event would obviously be devastating for housing starts.

Additionally, another one of the company's big customers, China, is also weak. China's building boom has ground to a halt, and many pundits say the economy there is doing much worse than official GDP growth numbers indicate.

Profitability has taken a hit as well. In the company's most recent quarter revenue was up significantly on the back of the weak Canadian dollar, rising nearly 20%. But profit was down substantially, falling from \$45.5 million in 2014 to a loss of \$17.3 million. Even before special items, Canfor only delivered \$28 million in operating income.

Perhaps the biggest thing dragging down Canfor shares is the decline in the price of lumber. Over the last year the price of the commodity is down some 25%. With the U.S. housing sector really being the only area of brightness, many analysts expect that price could decline even further.

### **The bull case**

The strong U.S. dollar is really helping Canfor.

Remember, lumber products are priced in U.S. dollars, and Canfor has significant U.S. operations. So even though prices fell in local currency, things weren't so bad once revenue got converted back to Canadian dollars.

Canfor now sells approximately half of its product to the U.S., with 20% staying at home in Canada and 30% going to Asia. The U.S. market looks to be pretty strong, which should help going forward.

Canfor is one of the more efficient producers with an EBITDA higher than three of its four-largest competitors per one thousand board feet. Its balance sheet is in good shape as well with \$380 million in debt offset by \$86 million in cash. Although net profit numbers aren't spectacular, Canfor is on pace to generate \$190 million in free cash flow in 2015, putting shares at just over 10 times free cash flow.

That's not a bad valuation, especially considering how earnings and free cash flow are at a low point.

Jim Pattison aggressively bought his Canfor shares during times of weakness, and it's worked out pretty well for him. It's easy to make the argument that the current funk is only temporary in nature as well. Eventually, the price of lumber will recover again, which should help bring shares higher.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:CFP (Canfor Corporation)

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**Author**  
nelsonpsmith

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