



## Here's a Look at What Western Forest Products Inc. Has Been up to

### Description

By looking at **Western Forest Products Inc.'s** ([TSX:WEF](#)) financials over the last few years, we can see a picture of a company that has grown its revenue and generated strong cash flows, all while the lumber market has been tough, to say the least. And now we have an improving outlook, a cheap stock, a business that has been very effectively managed, and a company that looks to be set up to win.

Here are four takeaways from the results that leave me feeling bullish about this stock.

#### Strong demand and pricing

Lumber revenue (representing 71% of total revenue) increased 6% due to stronger pricing as the company's average realized lumber price increased by \$70 to a record \$872 per thousand board feet in 2015. This stronger pricing was due to a better, higher-margin sales mix with specialty lumber demand growing due to a strong North American repair and renovation market as well as the weak Canadian dollar, as 47% of revenue is in U.S. dollars.

In the fourth quarter lumber revenue increased 17% due to a 12% increase in average realized prices and a 5% increase in shipments. Demand for its specialty lumber product, which sells at a premium to commodity lumber, was strong and represented 54% of total revenue.

#### Strong free cash flow generation again in 2015

Cash flow from operations increased 11.8% to \$105.5 million in 2015, and free cash flow was \$43.4 million for a free cash flow margin of 4%. After we deduct the \$31.6 million in dividend payments, free cash flow was still \$12 million, and this was used primarily to pay down debt.

#### Strong balance sheet

Western Forest Products's balance sheet was already strong, but this quarter it was strengthened even further. This quarter the company reduced its net debt by \$4.5 million to \$53.8 million, which translates to a debt-to-equity ratio of less than 20%.

### Capital investments continue

The company continues to invest in the business, upgrading facilities and streamlining. Current efforts to consolidate its timberland operations are expected to result in lower operating costs going forward, and the modernization of its Saltair, Duke Point, and Chemainus facilities will result in lower operating costs and better flexibility.

Margins continue to rise, and the EBITDA margin was 10.8% in 2015 compared to 10.5% in 2014, and it hit 11.1% in the fourth quarter. As long as management sees this kind of response in margins, capital projects like these will continue. And when the point comes that these margin improvements and modernizations are complete, management has the backing of a strong balance sheet to look at other options, such as acquisitions, in order to grow the business further.

In closing, this quarter showed continued improvement of fundamentals as well as continued progress on the company's plan to improve margins. The stock trades at 11.8 times trailing earnings and 7.6 times 2016 consensus estimated earnings. And the 4.04% dividend yield is kind of nice, too.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:WEF (Western Forest Products Inc.)

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