



## Should You Buy Western Forest Products Inc. for Income?

### Description

At \$1.87 per share, **Western Forest Products Inc.** ([TSX:WEF](#)) offers an eligible dividend of nearly 4.3%, which is more favourably taxed than your job's income in a taxable account.

Should you consider the company for income? Are its shares priced at a good value today?

First, let's see if it's the kind of business you'd like to own.

### The business

Western Forest Products is an integrated forest products company; it is the fifth-largest Canadian lumber-producing company and the largest coastal British Columbian woodland operator and lumber producer.

Each year, Western Forest Products can harvest about 6.1 million cubic metres of timber, of which, about 96% is from Crown lands.

The company sustainably manages forests and manufactures high-quality wood products. Its main activities include timber harvesting, reforestation, sawmilling logs into lumber and wood chips, and value-added remanufacturing. It has seven sawmills and two remanufacturing plants to do the job.

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### Revenue

In the 12 months that ended in September, Western Forest Products generated 59% of its revenue from specialty lumber, 20% from logs, 15% from commodity lumber, and 6% from by-products.

The forest-product company's core market is in North America. In the same period, it generated 66% of its revenue there (43% from Canada and 23% from the United States). It also exports its products to Japan (15% of its sales), China (11%), and Europe (3%).

Western Forest Products benefits from a strong U.S. dollar as it earns about 46% of its revenue in that

currency. It earns about 48% of its revenue in the Canadian dollar and roughly 6% of its revenue in the Japanese yen.

The company generates about 79% of its lumber revenue from non-commodity products. Additionally, its specialty lumber, which makes up a large chunk of its revenue, sells at a significant premium to commodity lumber. These factors help stabilize the business's earnings.

### **The takeaway**

Western Forest Products would benefit from a continued recovery in the U.S. housing market and economic growth in China. The company trades at a price-to-earnings ratio (P/E) of about nine, while the shares have normally traded at a P/E of about 10.8 in the last few years.

Since Western Forest Products is a small cap, it's not well covered by analysts. The analyst consensus across five analysts gives a 12-month mean price target of \$2.40, which implies a forward P/E of about 10 and a reasonable target.

At the current price per share, that comes out to a margin of safety of 22%. It has the potential to appreciate 28% in the next 12 months. On top of that, the company offers a 4.3% yield.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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