



Canfor Corporation: A Key Player With All the Right Moves

Description

There's been much ado about the rhetoric from the Trump Administration regarding Canadian industry, along with an increasingly heated trade dispute, as the two sides appear to be further apart than once thought on such key trade issues as supply management and raw material exports from Canada into the U.S.

Softwood lumber has remained a hot topic for decades, and with the never-ending dispute still a negotiating point for both sides in the ongoing NAFTA discussions, the tariffs that companies like **Canfor Corporation** ([TSX:CFP](#)) are currently facing are largely being passed on to the average American household by builders, who require lumber to fuel the [housing boom](#) south of the border.

Canadian producer Canfor has announced that it will be moving forward with a plant in Georgia at a cost of approximately US\$120 million as a backup plan should negotiations fall further into the abyss and tariffs ratchet up in the medium term. Several Canadian producers have been following this playbook, investing in plants in the U.S. and seeking alternative trading partners abroad as plays to assure investors that increasing production levels will be maintained in the long run.

The commodity price of lumber has also provided a boon for the industry as a whole, with prices continuing to climb as expected demand for softwood continues to outpace supply at this point. The fundamental economics of this sector have pushed the share prices of companies like Canfor much higher recently, with Canfor's share price hovering around an all-time high (currently above \$30 per share at the time of writing).

I've remained bearish on cyclical sectors such as softwood lumber for some time, viewing the recent U.S.-Canada trade dispute as a [negative](#) medium- to long-term catalyst for companies like Canfor. While the risks associated with NAFTA have actually worked in Canfor's favour in the near-term, risks that increased tariffs could reduce U.S. demand have somewhat been diluted by the company's announcement that it will be doubling down on its U.S. infrastructure.

Bottom line

Strategically, Canfor has made all the right moves recently to position itself as a key player in the

global softwood lumber sector. While a potential Trump-related headwind continues to hamper outright exuberance for this sector, cyclical realities of housing and other macro-economic factors that are at play and priced into the current commodity price of softwood lumber are likely to remain for long-term investors.

Stay Foolish, my friends.

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