This TSX Timber Company Sings 2 Different Tunes During COVID-19

Description

The COVID-19 pandemic has caused a lot of industries to be thrown out of whack. Consumers across the world realized that they could live without products they once thought were essential. Other industries have simply seen a pause in their business until the worst of the pandemic (until now, at least) passed.

Canfor (TSX:CFP) reported operating income of $97 million for the second quarter of 2020, including the recovery of $81 million of previous inventory write-downs in the lumber segment. This was $185.7 million higher than the operating loss of $88.8 million reported in Q1 of 2020. Adjusted net income came in at $83 million.

What impacted Q2 sales?

The lumber market saw extreme swings in the second quarter. Global demand fell drastically in April, as non-essential businesses closed temporarily and lockdowns were imposed in North America, Europe, and Asia. However, there was a massive spike in demand from the remodelling and new home construction segments in North America and Europe in May and June.

Since April saw limited demand, lumber companies had lesser inventory, and a reduced lumber supply saw a dramatic rise in North American and European pricing. The start of the third quarter has continued to see an increase in lumber prices. Canfor's order books in North America and Europe are full well into August.

The company had been on diversification mode for the better part of the last decade to ensure that it wouldn't be caught with all its eggs in one basket. In 2013, 88% of Canfor's business was Canada based. Today, it generates 43% from British Columbia, 31% from the U.S., 22% from Europe, and 4% from Alberta.

The second quarter hasn't been all good for the company. Canfor shut down its Isle Pierre sawmill in British Columbia permanently in May in the wake of an insufficient supply of economically viable timber.

A pulpy quarter

Canfor's lumber segment reported an operating income of $107 million, but **Canfor Pulp** (TSX:CFX) reported tough numbers in a tough quarter, and the Q3 outlook for the company continues to be towards the darker end of the spectrum. It reported an operating loss of $6 million and a net loss of $1 million. Canfor Corp has a 51.9% stake in Canfor Pulp.

The pandemic had a more severe impact on the global pulp business. While global demand for pulp improved in April thanks to the increased demand for at-home tissues and supply chain disruptions, demand fell sharply in May and June with tissue demand climbing down and a sharp decline in printing and writing demand. Pulp shipments were down 14% in Q2.

Pulp inventories across the world in June increased by six days compared to March 2020, highlighting the low demand for the product. The company expects the third quarter to fare no better, as demand continues to be weak.

Canfor Pulp closed its operations in Northwood for three weeks in the second quarter and has shut its PG and Intercon pulp mills for four weeks in the third quarter. A tough quarter is on the cards for this stock, which is trading at $6.11. Avoid it.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:CFP (Canfor Corporation)
2. TSX:CFX (Canfor Pulp Products Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/07/20
Date Created
2020/07/28
Author

araghunath