



Top Canadian Lumber Stocks of 2023

Description

Lumber stocks are publicly traded companies that cut, process, market, and sell wood products. These stocks have seen some immense growth over the last two-and-a-half years, fuelled by Canada's insatiable appetite for homes and the world's push for more sustainable construction projects.

For investors looking to profit off Canada's immense demand for timber and housing, lumber stocks can be an attractive alternative to full-on [real estate investing](#).

Let's delve into these hot stocks and see if they're right for your holdings.

What are lumber stocks?

Simply put, lumber stocks are companies whose main products are wood or wood pulp. A sawmill company that cuts and sells 2x4s, for instance, is a lumber stock, as is a company that makes paper reams and cardboard packaging boxes.

While the companies in this [market sector](#) are incredibly diverse, they typically fall into one of these categories:

- **Roundwood companies** produce wood in "log" form, such as poles, posts, and girders (think utility poles used to connect telephone wires).
- **Sawn wood companies** saw wood in different dimensions and forms for use in home building, furniture making, and home renovations.
- **Pulp and paper companies** make paper and cardboard products from wood pulp.

Top Canadian lumber stocks

Canada is the second largest producer of wood in the world, with wood exports making up \$17 billion in annual sales. As such, the [Toronto Stock Exchange \(TSX\)](#) has some of the largest lumber

companies, including the following three:

Lumber Stocks	Description
West Fraser Timber (TSX:WFG)	Vancouver-based wood company that manufactures and sells lumber
Canfor (TSX:CFP)	Softwood lumber and pulp company with operations across Canada
Stella Jones (TSX:SJ)	Lumber producer that makes utility poles and lumber used in home building

1. West Fraser Timber

Based in Vancouver, West Fraser is one of Canada's largest and most diversified lumber companies.

Indeed, this company is involved in almost every aspect of lumber production and manufacturing, including engineered wood products (such as particleboard and plywood), wood pulp, wood chips, newsprint, paper, tissue, cardboard, and box materials, just to name a few.

In 2021, West Fraser acquired another Canadian timber company, Norbord, which has now helped it become the world's largest producer of oriented strand board.

Despite transportation challenges and mill disruptions, West Fraser has delivered fantastic results in 2022. In the first quarter, the company announced sales of \$3.1 billion, up from \$2 billion in the fourth quarter of 2021. It also delivered an adjusted EBITDA of \$1.6 billion, up from \$615 million in the year-ago period.

2. Canfor

Another lumber company hailing from Vancouver, Canfor is North America's leader in integrated forest products. Its main products include softwood lumber, engineered wood products, and specialty wood. Canfor is also the world's largest producer of sustainable lumber, with stakes in both green energy and green pellets.

Canfor has lumber mills in British Columbia, Alberta, and the Southeastern United States. It's also made numerous strategic acquisitions, such as its recent purchase of Millar Western Forest Products.

Like other companies in the lumber industry, Canfor's revenues have increased due to the rise in lumber costs. In the first quarter of 2022, net profits were up 25% compared to the last quarter of 2021, and operating income was \$742 million, which was a major improvement from its loss of \$66 million the year before.

3. Stella Jones

Stella Jones is another Canadian lumber giant that focuses on two segments: pressure-treated wood (such as utility poles, residential lumber, and railroad ties) and logs and lumber (lumber for home-

building projects).

Of the two, Stella Jones makes most of its revenue from pressure-treated wood, which amounted to \$545 million in revenue at the end of 2021 (compared to \$39 million from lumber and logs). Because utility poles and railroad ties have to be changed out periodically, Stella Jones enjoys having stability in its revenue stream, rare for an industry that's prone to cycles of volatility.

Stella Jones has been profitable for 20 straight years. The company is also a dividend aristocrat (the only one in the industry), and it has raised its payout for 17 consecutive years.

Investing in foreign lumber markets

Though you can find plenty of exciting lumber stocks within Canada, you might also want to look down south to the U.S. to diversify your holdings. For those interested in [international stocks](#), here are three U.S. lumber companies you might want to consider.

Lumber Stocks	Description
International Paper	Major producer of paper products, such as Hammermill, Williamsburg, and Springhill
Boise Cascade	Manufacturer of wood products and building materials used to construct homes
Resolute Forest Products	Diversified lumber company with a wide range of products, such as newsprint, commercial paper, and timber

Are lumber stocks right for you?

The good thing about timber is that it plays an essential role in home building and furniture making. As long as demand for these remains high, lumber stocks can present investors with immense upward gains.

Right now, lumber stocks are appealing, due to the red-hot demand for timber. While prices have fluctuated over the last year, lumber is still more expensive than it has ever been before. Prices hit an all-time high of \$1,711 per thousand board feet in May 2022.

Before its current bull run, stretching from late 2020 until mid-2022, Canadian lumber companies had another recent period of immense growth in 2018. The all-time high back then: \$582 per thousand board feet.

That 193% increase in timber prices between two all-time highs is the reason lumber stocks are expected to grow in the foreseeable future. But be warned: lumber prices may not always be this high, nor are they guaranteed to go any higher.

Like other commodities, this industry is extremely [cyclical](#), with most of its upward growth tied to the housing market. When the demand for houses slows down, timber prices will likely fall and lumber companies could experience revenue losses as a result.

Surging demand is also over-stressing lumber companies. Many mills have such a long backlog of orders; they've simply produced more lumber than they can safely store. Some mills have even had to close temporarily, as they've accumulated an unsustainable level of inventory.

As if that wasn't hard enough, railway cars—the primary transportation network for timber—have also stalled the supply chain, as they can't transport enough supply to keep up with raging demand.

That's not bad news. Strong demand means the timber industry can continue jacking up prices. But it's certainly something investors should pay close attention to, as the market could become too frothy with the end result being a deflation in timber prices—and consequently lumber stocks.

TICKERS GLOBAL

1. TSX:CFP (Canfor Corporation)
2. TSX:SJ (Stella-Jones Inc.)
3. TSX:WFG (West Fraser Timber Co. Ltd.)

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