



## Should Investors Buy This Lumber Stock or Call “Timber?”

### Description

Lumber prices have been on the move in a big way in recent months. After spiking to astronomical levels earlier this year, lumber prices have since cooled off. For producers in lumber stock **West Fraser Timber** ([TSX:WFG](#)), this hasn't necessarily hurt as much as many might have expected.

Sure, West Fraser's share price is down approximately 20% from its 52-week high. However, this is also a lumber stock that's up more than 50% from its 52-week low. Thus, this is an intriguing time to consider lumber producers, given the volatility with underlying commodity prices.

Accordingly, let's dive into what investors may be considering with this stock today.

### Bull case: This lumber stock has a lot of room to run

One of the interesting things to note about lumber producers like West Fraser Timber is how profitable these companies are. Indeed, even after a rapid share price increase from March 2020 lows, WFG stock is still trading at around [38 times earnings](#), at the time of writing. On a forward-looking basis, these numbers are even lower.

Accordingly, there's a value argument to be made for owning this lumber stock right now.

On the growth end of the spectrum, West Fraser can expect to pull in some impressive earnings in the near term. A recently announced share buyback plan of up to \$1 billion could accelerate this earnings-per-share growth. All this while, the company's [dividend yield](#) sits at 1.1%. Many long-term investors believe this is too low of a yield, and given the company's recent share buyback plan, I expect to see dividend hikes on the horizon.

### Bear case: Inflation really is transitory

The flip side of the argument that West Fraser is fairly valued is the idea that the commodity price surge we saw this year wasn't real. That is, investors began to price in structural inflation that isn't

likely to materialize.

This argument certainly seems to hold some water, looking at the price action of commodities in recent weeks. Lumber prices have come down to earth, as has this lumber stock (to a lesser degree). Should investors begin to believe lumber prices are likely to resume their decline further, the risk is that West Fraser shares will be valued as such.

Some high-profile money managers have recently sold their stakes in the sector, indicating a sentiment shift to some degree.

## Bottom line

West Fraser is a lumber stock I'll be keeping an eye on. This is one of the best producers in its sector, and it should be a net beneficiary of the commodity price volatility of late.

However, risks do remain. Investors should remember to size such positions prudently in this environment.

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### TICKERS GLOBAL

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