

## Louisiana-Pacific Corp.

# Post 4Q: “Constructive” set up; Siding progressions and commercial trends

Reiterate Rating: UNDERPERFORM | PO: 68.00 USD | Price: 70.13 USD

## Good 4Q and outlook – Siding trends key

We have rated Louisiana-Pacific at U/P based on its proximity to our PO and potential risks for wood product trends to decelerate given interest rates and inflation. [Our earlier flash](#) (see report) has details from 4Q. Key points: (a) LPX is investing quite a bit into selling and marketing in Siding in 2024, with a focus on the repair/remodel pro contractor (partly around ExpertFinish®) as well as the home builder (aimed at driving penetration of BuilderSeries®). Based on conference call commentary this could amount to ~\$25-30mn in 2024. With peers announcing their own increases in marketing for 2024, it will be interesting to track overall '24 category growth, commercial activity (i.e. marketing, promotional, competitive factors) and share trends; (b) Based on guidance, the implied 6-7% volume growth in Siding (assumed 2-3% of pricing) would equate to ~\$350-360mn of EBITDA assuming ~50% incremental margin and a reversal of last year's mill conversion impacts. However, including the marketing / infrastructure / new product investment noted earlier, plus another ~\$20mn inflation, this drives EBITDA closer to \$300mn (and compares with \$280-300mn of guidance, suggesting there's some cushion in forecasts at present); (c) The current demand and pricing backdrops suggest good start for oriented strand board (OSB).

## Estimates move up 14%, PO to \$68 from \$65

Given our refinements, our estimates move from \$3.45 in 2024 and \$3.75 in 2025 to \$3.95 and \$3.90, respectively. Our new 2026 estimate is \$3.80. Estimates for the current year benefit from stronger OSB trends, higher price realizations, and increasing Siding incremental EBITDA margins. Our PO moves to \$68 from \$65 based on a normalized free cash flow (FCF) estimate and SOTP valuation. Valuation multiple will be particularly impacted by developments in Siding.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.77	3.22	3.95	3.90	3.80
EPS Change (YoY)	-15.7%	-72.6%	22.7%	-1.3%	-2.6%
Consensus EPS (Bloomberg)			3.84	5.10	5.77
DPS	0.96	1.04	1.04	1.04	1.04
Valuation (Dec)					
P/E	6.0x	21.8x	17.8x	18.0x	18.5x
Dividend Yield	1.4%	1.5%	1.5%	1.5%	1.5%
EV / EBITDA*	3.8x	12.9x	10.7x	10.8x	11.0x
Free Cash Flow Yield*	14.5%	0.3%	8.8%	2.2%	2.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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Timestamp: 14 February 2024 05:18PM EST

14 February 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	65.00	68.00
2024E Rev (m)	2,707.0	2,840.6
2025E Rev (m)	2,801.7	2,863.0
2026E Rev (m)	NA	2,965.6
2024E EPS	3.45	3.95
2025E EPS	3.75	3.90
2026E EPS	NA	3.80
2024E EBITDA (m)	471.3	519.0
2025E EBITDA (m)	499.1	513.9
2026E EBITDA (m)	NA	504.2
2024E DPS	0.96	1.04

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## Stock Data

Price	70.13 USD
Price Objective	68.00 USD
Date Established	14-Feb-2024
Investment Opinion	C-3-7
52-Week Range	49.47 USD - 79.56 USD
Mkt Val (mn) / Shares Out (mn)	5,049 USD / 72.0
Free Float	88.7%
Average Daily Value (mn)	44.82 USD
BofA Ticker / Exchange	LPX / NYS
Bloomberg / Reuters	LPX US / LPX.N
ROE (2024E)	17.1%
Net Dbt to Eqty (Dec-2023A)	8.0%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Louisiana-Pacific Corp.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	53.4%	11.1%	12.8%	11.6%	10.5%
Return on Equity	68.8%	15.5%	17.1%	15.0%	13.2%
Operating Margin	33.0%	12.2%	13.8%	13.5%	12.7%
Free Cash Flow	730	16	446	109	102

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.4x	2.3x	1.5x	1.5x
Asset Replacement Ratio	3.1x	2.5x	1.6x	2.3x	2.3x
Tax Rate	23.3%	29.2%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-1.6%	8.0%	-12.7%	-13.1%	-13.1%
Interest Cover	NM	20.9x	32.6x	34.8x	33.9x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,024	2,579	2,841	2,863	2,966
% Change	-11.6%	-35.9%	10.1%	0.8%	3.6%
Gross Profit	1,670	709	719	716	714
% Change	-23.7%	-57.5%	1.5%	-0.5%	-0.3%
EBITDA	1,461	432	519	514	504
% Change	-24.9%	-70.4%	20.1%	-1.0%	-1.9%
Net Interest & Other Income	(90)	(64)	(12)	(11)	(11)
<b>Net Income (Adjusted)</b>	<b>918</b>	<b>232</b>	<b>284</b>	<b>281</b>	<b>274</b>
<b>% Change</b>	<b>-32.8%</b>	<b>-74.7%</b>	<b>22.6%</b>	<b>-1.2%</b>	<b>-2.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	954	177	284	281	274
Depreciation & Amortization	132	119	128	128	128
Change in Working Capital	(30)	(128)	244	0	0
Deferred Taxation Charge	(1)	0	0	0	0
Other Adjustments, Net	89	148	0	0	0
Capital Expenditure	(414)	(300)	(210)	(300)	(300)
<b>Free Cash Flow</b>	<b>730</b>	<b>16</b>	<b>446</b>	<b>109</b>	<b>102</b>
<b>% Change</b>	<b>-40.7%</b>	<b>-97.8%</b>	<b>NM</b>	<b>-75.5%</b>	<b>-6.7%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(69)	(69)	(75)	(75)	(75)
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	369	222	571	606	633
Trade Receivables	127	155	175	175	175
Other Current Assets	357	401	263	263	263
Property, Plant & Equipment	1,326	1,540	1,644	1,816	1,988
Other Non-Current Assets	171	119	119	119	119
<b>Total Assets</b>	<b>2,350</b>	<b>2,437</b>	<b>2,772</b>	<b>2,979</b>	<b>3,178</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	336	259	385	385	385
Long-Term Debt	346	347	347	347	347
Other Non-Current Liabilities	234	274	274	274	274
<b>Total Liabilities</b>	<b>916</b>	<b>880</b>	<b>1,006</b>	<b>1,006</b>	<b>1,006</b>
<b>Total Equity</b>	<b>1,434</b>	<b>1,557</b>	<b>1,766</b>	<b>1,973</b>	<b>2,172</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,350</b>	<b>2,437</b>	<b>2,772</b>	<b>2,979</b>	<b>3,178</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Paper Products

## Company Description

Louisiana-Pacific (LPX), with sales of around \$3.9bn in 2022, is one of the largest producers of oriented strand board (OSB) wooden panels used to sheath the exterior of a house during construction, with 24% market share in North America. LPX also has 15% market share in total structural panels. In addition, the company manufactures wood siding, engineered wood products (EWP), and plastic moldings. LPX has approx. 5bsf of OSB capacity.

## Investment Rationale

We rate LPX at Underperform given its proximity to our PO and potential we see for wood product trends to decelerate.

## Stock Data

Average Daily Volume

639,046

## Quarterly Earnings Estimates

	2023	2024
Q1	0.34A	1.01E
Q2	0.55A	0.95E
Q3	1.62A	1.26E
Q4	0.71A	0.73E

# Review of Relevant Operating Statistics

## Louisiana-Pacific Corporation (LPX)

### Exhibit 1: LPX Model Changes

Review of latest estimates and forecast changes

**Quarterly result:** **\$0.71 vs. BofA at \$0.54 and Consensus at \$0.54**

#### Model changes:

1Q24E	\$1.01 vs. \$0.71 (old)
2023A	\$3.22 vs. \$3.05 (old)
2024E	\$3.95 vs. \$3.45 (old)
2025E	\$3.90 vs. \$3.75 (old)
2026E	\$3.80
Price Objective	\$68 (was \$65)

Source: Company reports, Bloomberg, BofA Global Research estimates

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### Exhibit 2: LPX Relevant Operating Statistics

Review of results vs. BofA estimates

	4Q22A	4Q23A	BofA	Key highlights
<b>Revenues (\$mn)</b>				
OSB	257	272	239	
Siding	386	332	331	
South America	51	52	63	
Other	12	1	15	
<b>Net Sales</b>	<b>706</b>	<b>657</b>	<b>648</b>	
<b>Adj. EBITDA (\$mn)</b>				
OSB	13	59	31	Average price realizations were 10% ahead of our forecast (\$347/msf vs. our \$312/msf) EBITDA beat our forecasts by \$7.5mn, despite weaker average price realizations.
Siding	88	72	65	
South America	12	11	6	
Other	(4)	(2)	(8)	
<b>Segment Adj. EBITDA</b>	<b>109</b>	<b>140</b>	<b>94</b>	
<b>Adj. EBITDA Margin</b>				
OSB	5.1%	21.7%	12.8%	
South America	23.5%	21.2%	10.0%	

Source: Company reports, BofA Global Research estimates

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## Price objective basis & risk

### Louisiana-Pacific Corp. (LPX)

Our \$68 PO is based on an average of (a) a normalized free cash flow (FCF) estimate of \$383mn, a calculated cost of equity of 13% and forecast rate of growth of 4%, (b) a SOTP value, using our evaluation of normal EBITDA, which is an average of historical periods 2016-22 and our forecasts through '25E. We project LPX's OSB segment will be valued at 5x our 2024E EBITDA forecast and its Siding segment will be valued at 10x EBITDA given building product/siding peer comps. We apply 6-8x EBITDA multiples to its other businesses. Separately, we value LPX's OSB business at 1.5x sales, its siding business at 2.5x sales and its other businesses at 1-2x sales. We assume the average of our EV/EBITDA and EV/Sales valuations, and then discount this to derive our 12-month PO.

Downside risks: (1) the broader housing picture, (2) weak demand and supply-chain, (3) changes in average home size, (4) OSB supply/demand dynamics, (5) cost volatility (wood fiber, resin, and foreign exchange), (6) operational risks associated with the expansion of LPX's siding segment, (7) regulatory and policy changes, and (8) supply/demand and market risks in Siding, and across LPX's business.

Upside risks: Should housing and related demand trends or supply/demand in LPX's various product markets prove better-than-expected, LPX stock could exceed our PO.

## Analyst Certification

I, George L. Staphos, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - CI A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPK	GPK US	George L. Staphos
	O-I Glass Inc	OI	OI US	George L. Staphos
	Pactiv Evergreen	PTVE	PTVE US	George L. Staphos
	Sealed Air Corp.	SEE	SEE US	George L. Staphos
	Silgan Holdings Inc.	SLGN	SLGN US	George L. Staphos
	Sonoco Products Co.	SON	SON US	George L. Staphos
	Sylvamo Corp.	SLVM	SLVM US	George L. Staphos
	WestRock	WRK	WRK US	George L. Staphos
	Weyerhaeuser Co.	WY	WY US	George L. Staphos
<b>NEUTRAL</b>				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Greif Inc.	GEF	GEF US	George L. Staphos
	Packaging Corp. of America	PKG	PKG US	George L. Staphos
	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
<b>UNDERPERFORM</b>				
	Amcor Plc	AMCCF	AMC AU	George L. Staphos
	Amcor PLC	AMCR	AMCR US	George L. Staphos
	Avery Dennison Corp.	AVY	AVY US	George L. Staphos
	Ball Corp.	BALL	BALL US	George L. Staphos
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

## US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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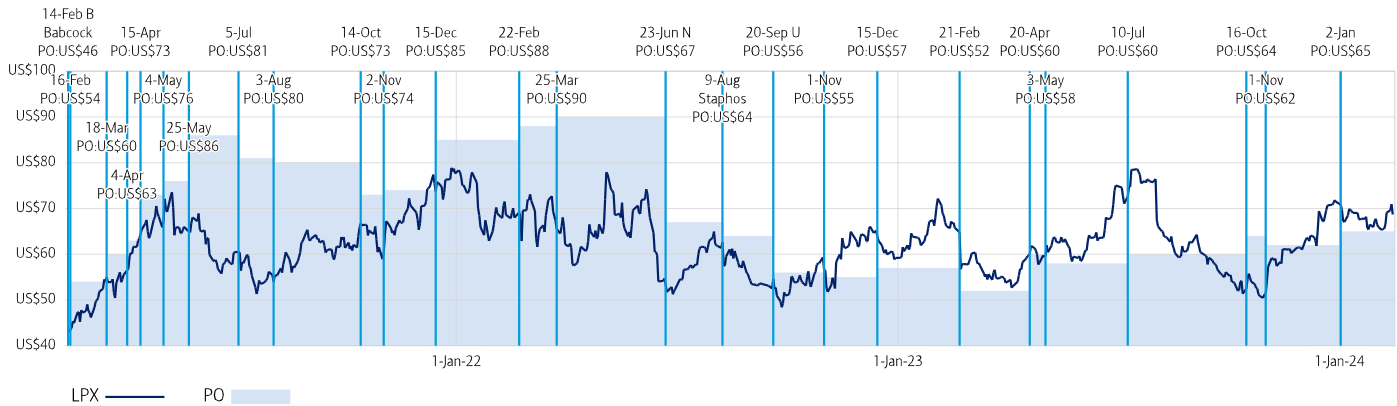
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### Louisiana-Pacific (LPX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Paper/Forest Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	9	45.00%	Buy	8	88.89%
Hold	2	10.00%	Hold	1	50.00%
Sell	9	45.00%	Sell	5	55.56%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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