

Boise Cascade Company

Post 4Q: Seasonal factors slow stock momentum into 1Q after good 4Q

Reiterate Rating: UNDERPERFORM | PO: 132.00 USD | Price: 125.11 USD

Return of normal seasonality

We maintain an Underperform on shares of Boise Cascade (BCC) given its proximity to our PO (a function of its much better-than-estimated results and stock performance in prior periods) and potential we see for wood pricing and other trends to decelerate for 2024. As discussed in our [Flash note](#) (see report), fundamentals for 4Q were largely in line with our forecasts as better Wood results (a +\$10mn v. our forecast) exactly offset lower Building Materials Distribution (BMD) performance versus our estimates. Examining 4Q, performance in Wood benefited from a true-up on rebate accruals. In turn, with demand seasonally soft for 1Q and the resultant increase in competition, pricing for Engineered Wood Products (EWP) should be down ~5% sequentially in 1Q. There are no announced price hikes in the market. Meantime, BMD should see ~5% EBITDA margin (after a sub-5% level in 4Q, a bit worse than our model) on sequential daily sales revenue declines in the neighborhood of 10% to start 1Q. As a result, our forecasts drop for BCC as a whole.

Reducing forecasts

Given our refinements, our new EPS forecasts are as follows: (a) 1Q24: \$2.15, (was \$2.50); (b) 2024: \$11.70, (was \$11.95); (c) 2025: \$11.90, (was \$12.00); (d) 2026: \$12.30, (new). While our estimates decrease, our valuation metrics including our free cash flow (FCF) estimate and sum-of-the parts (SOTP) remain largely the same. As a result, our PO remains unchanged at \$132.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	21.56	12.12	11.70	11.90	12.30
GAAP EPS	21.57	12.12	11.71	11.91	12.30
EPS Change (YoY)	20.0%	-43.8%	-3.5%	1.7%	3.4%
Consensus EPS (Bloomberg)			11.74	11.83	11.20
DPS	4.01	8.70	0.80	0.80	0.80
Valuation (Dec)					
P/E	5.8x	10.3x	10.7x	10.5x	10.2x
Dividend Yield	3.2%	7.0%	0.6%	0.6%	0.6%
EV / EBITDA*	3.4x	5.6x	5.5x	5.4x	5.3x
Free Cash Flow Yield*	18.7%	9.5%	7.2%	8.7%	10.2%

* For full definitions of *IQmethod*SM measures, see page 6.

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	7,098.5	7,096.3
2025E Rev (m)	7,238.6	7,283.7
2026E Rev (m)	NA	7,462.3
2024E EPS	11.95	11.70
2025E EPS	12.00	11.90
2026E EPS	NA	12.30
2024E EBITDA (m)	776.5	779.4
2025E EBITDA (m)	778.7	789.7
2026E EBITDA (m)	NA	810.7
2024E DPS	0.60	0.80

George L. Staphos

Research Analyst
BofAS
+1 646 855 4495
george.l.staphos@bofa.com

Cashen Keeler

Research Analyst
BofAS
+1 646 855 4256
cashen.keeler@bofa.com

Lucas Hudson

Research Analyst
BofAS
lucas.hudson@bofa.com

Stock Data

Price	125.11 USD
Price Objective	132.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-3-7
52-Week Range	54.49 USD - 143.56 USD
Mrkt Val (mn) / Shares Out (mn)	4,947 USD / 39.5
Free Float	98.4%
Average Daily Value (mn)	27.61 USD
BofA Ticker / Exchange	BCC / NYS
Bloomberg / Reuters	BCC US / BCC.N
ROE (2024E)	19.4%
Net Dbt to Eqty (Dec-2023A)	-23.0%
ESGMeter™	Medium

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Timestamp: 21 February 2024 08:09PM EST

iQprofileSM Boise Cascade Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	37.8%	18.1%	15.7%	13.8%	12.5%
Return on Equity	50.3%	22.7%	19.4%	16.7%	14.9%
Operating Margin	13.8%	9.1%	9.0%	8.9%	9.0%
Free Cash Flow	927	472	355	431	503

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.4x	1.3x	1.4x	1.4x
Asset Replacement Ratio	1.1x	1.6x	1.8x	1.6x	1.2x
Tax Rate	25.2%	25.0%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-26.9%	-23.0%	-31.4%	-39.9%	-48.0%
Interest Cover	45.6x	24.5x	24.7x	25.4x	26.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,387	6,838	7,096	7,284	7,462
% Change	5.8%	-18.5%	3.8%	2.6%	2.5%
Gross Profit	1,915	1,429	1,432	1,460	1,497
% Change	17.8%	-25.4%	0.2%	1.9%	2.5%
EBITDA	1,259	757	779	790	811
% Change	19.7%	-39.9%	3.0%	1.3%	2.7%
Net Interest & Other Income	(11)	21	(14)	(13)	(13)
Net Income (Adjusted)	858	484	468	476	492
% Change	20.4%	-43.6%	-3.2%	1.7%	3.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	858	484	468	476	492
Depreciation & Amortization	102	132	142	142	142
Change in Working Capital	41	24	(38)	(5)	0
Deferred Taxation Charge	60	0	31	32	33
Other Adjustments, Net	(19)	48	12	12	12
Capital Expenditure	(114)	(215)	(260)	(225)	(175)
Free Cash Flow	927	472	355	431	503
% Change	65.4%	-49.1%	-24.9%	21.6%	16.6%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(160)	(346)	(32)	(32)	(32)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	998	950	1,273	1,672	2,143
Trade Receivables	320	374	470	470	470
Other Current Assets	745	734	706	711	711
Property, Plant & Equipment	770	933	1,049	1,131	1,162
Other Non-Current Assets	406	469	469	469	469
Total Assets	3,241	3,459	3,967	4,453	4,956
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	546	594	625	625	625
Long-Term Debt	444	445	445	445	445
Other Non-Current Liabilities	192	224	265	307	349
Total Liabilities	1,183	1,263	1,335	1,377	1,420
Total Equity	2,058	2,196	2,632	3,076	3,536
Total Equity & Liabilities	3,241	3,459	3,967	4,453	4,956

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Paper Products

Company Description

Boise Cascade is a large, vertically-integrated wood products manufacturer and buildings materials distributor. Boise is the #2 producer of plywood and engineered wood products, and is one of the largest distributors in the US. Boise's final end customers include professional builders, independent contractors and homeowners.

Investment Rationale

BCC has performed well throughout '23, but we now rate it Underperform. With increased mortgage rates, we think BCC is due for a pause. We anticipate earnings will decline somewhat into '24 and '25 on lower wood pricing and homebuilding/remodeling activity. Our research suggests multifamily construction will weigh on starts, even as r&r activity is down. Ultimately, we believe this will begin to put pressure on BCC's plywood, engineered wood, and Building Materials Distribution (BMD) business.

Stock Data

Average Daily Volume 220,697

Quarterly Earnings Estimates

	2023	2024
Q1	2.43A	NA
Q2	3.67A	NA
Q3	3.58A	NA
Q4	2.44A	NA

Model changes and other points

Exhibit 1: BCC Model Changes

Review of latest estimates and forecast changes

Quarterly result:	\$2.44 vs. BofA at \$2.37 and Consensus at \$2.58
Model changes:	
1Q24E	\$2.15 vs. \$2.50 (old)
2024E	\$11.70 vs. \$11.95 (old)
2025E	\$11.90 vs. \$12.00 (old)
2026E	\$12.30 (new)
Price Objective	\$132 (unchanged)
Source: BofA Global Research estimates, Visible Alpha	

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Exhibit 2: BCC Relevant Operating Statistics

Wood and OSB segment results vs. our forecast

	4Q22	4Q23A	BofA	Key highlights
Segment Revenue (\$mn)				
Wood Products	\$185	\$152	\$135	
Building Materials Distribution	\$1,444	\$1,493	\$1,502	
Total Segment Revenues	\$1,628	\$1,644	\$1,637	
Segment EBITDA (\$mn)				
Wood Products	\$100	\$93	\$80	Results above our forecasts with EBITDA ~16% higher than we had forecasted driven by higher sales volumes for I-joists and LVL. EBITDA of \$80.6mn was \$9.5mn lower than our forecast of \$90.1mn. BMD's revenue trend was driven by a sales volume increase of 13% y/y.
Building Materials Distribution	\$99	\$81	\$90	
Segment EBITDA	\$199	\$173	\$170	
Segment EBITDA Margin %	12.2%	10.5%	10.4%	

Source: Company filings, BofA Global Research estimates

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Exhibit 3: BCC Price and Cost Summary

Plywood, LVL, and EWP prices vs. our forecasts in 4Q23

	4Q22	4Q23	BofA est.
Price Realizations Summary			
Plywood (tsf - 3/8" basis)	\$396	\$375	\$375
LVL (hundred cubic feet)	\$3,436	\$2,993	\$2,900
I-joists (thou equiv lineal feet)	\$2,553	\$2,093	\$2,020
Cost/Unit Summary			
Wood products (per "unit")	\$176.7	\$121.0	\$128.5

Source: Company filings, BofA Global Research estimates

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Price objective basis & risk

Boise Cascade Company (BCC)

Our \$132 PO is based on the average of (a) a free cash flow (FCF) valuation based on our estimate of \$400mn in FCF, a calculated cost of equity of 11% and forecast rate of growth of 3%, (b) a sum-of-the-parts (SOTP) value that values BCC's Wood segment at 6x EBITDA (which is consistent with Wood multiples at this stage of the cycle) and 0.8x sales while its Building Materials Distribution segment will be valued at 8x and 0.5x, respectively. We then discount this valuation back to derive our 12 month PO.

Downside risks to our price objective being achieved are: (1) a slower housing recovery, (2) downwards commodity pricing volatility, (3) demand, supply-chain, (4) distribution business inventory and inflation trends, (5) potential volatility in actual performance relative to consensus given operating and financial leverage, (6) potential increases in Brazilian exports of plywood to the US.

Upside risks are: (1) increases in single and multi-family construction, and/or greater-than-expected usage of BCC products in construction, (2) upwards commodity pricing volatility, (3) reduced imports of plywood from Brazil.

BCC is impacted by numerous macro, inflation, currency and other considerations. To the extent that the points above are more negative than expected, BCC's results and stock price could wind up below our forecasts. Similarly, to the extent that the points above are more positive than expected, BCC results and stock price could wind up above our forecasts.

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
BUY				
	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
	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
NEUTRAL				
	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
UNDERPERFORM				
	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



US - Paper and Packaging Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos
RSTR	Graphic Packaging	GPK	GPK US	George L. Staphos

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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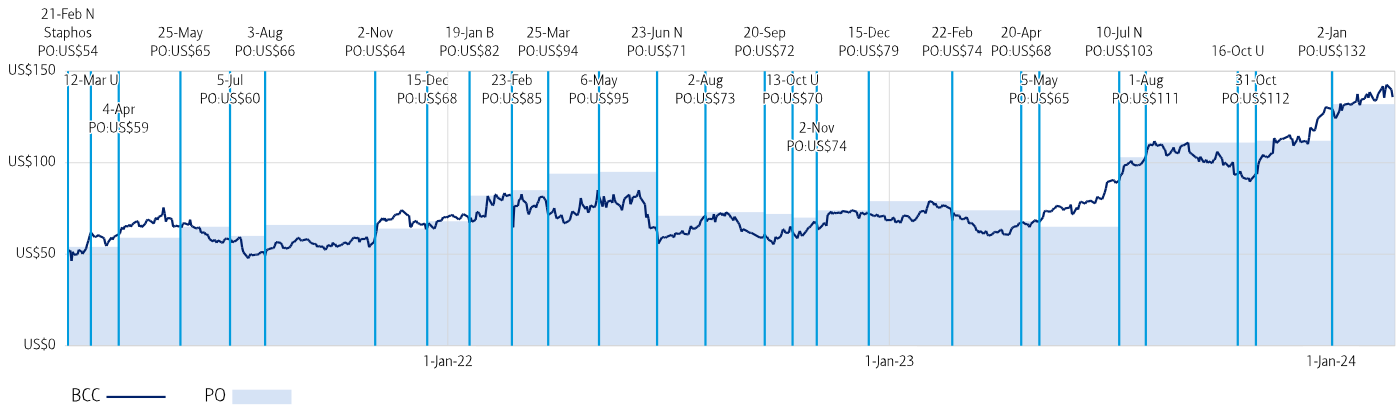
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Disclosures

Important Disclosures

Boise Cascade (BCC) 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 ^{R1}	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 ^{R1}	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%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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