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International Stock Market Weekly

Materials / Paper and Forest Products / Small Cap

Bloomberg TP	USD 49.33		
Current Price(03/04)	USD 46.17		
Industry	Materials		
S&P500 (03/04)	3,768.5		
Market Cap.(USDmn)	4,917.4		
Outstanding Shares(mn)	107		
52week Range	12.97 – 50.00		
Average Daily Trading Volume(3M)	1,393,354		
Increase Rate	1M	3M	6M
Absolute Price(%)	10.6	25.6	45.9
Relative Price(%p)	14.1	23.3	32.7

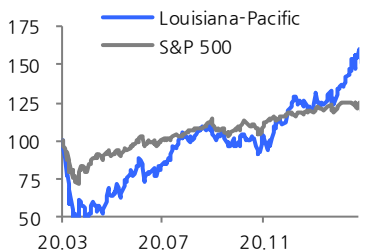
Louisiana-Pacific Corporation (LPX.US)

The COVID-19 pandemic of 2020 which hammered the US economy and crushed urban living has hastened changes in the way in which people live and work, and these changes will likely persist. From remote working, either partially or completely, to studying from home, to playing from home and entertaining from home, the mass migration to cities which had been taking place for the past few decades has made an about face. Americans now are increasingly leaving pricey urban areas in droves. And it is not only the pandemic and the resulting lifestyle shift that have helped to drive this change. Indeed, the seemingly never-ending climb in urban real estate prices, urban rents, taxes, cost of living, coupled with a shift in values which emerged from the pandemic has given birth to a new megatrend which will likely be in place for a generation or more.

The widespread adoption of remote work, less expensive housing in rural and suburban areas, social unrest, rising crime rates, an increased fear of living in densely populated areas are all factors driving the trend. Companies which are helping to realize the growth and development of these rural and suburban regions are also enjoying strong growth – and this is evident in their share prices.

While there are several attractive names that we like in the homebuilding and building materials sectors, Louisiana-Pacific Corporation is our top pick as we believe the stock offers the most upside potential in the near- to mid-term. The stock has been performing well but still trades for 10x PER, and offers a DPS of around 1.31%, which makes it great growth, value, and income stock, in our view.

Company Stock Price vs. Index



Source: Bloomberg, Hyundai Motor Securities

Consensus and Valuation

	Revenue (USDmn)	EBIT (USDmn)	Net Income (USDmn)	EBITDA (USDmn)	EPS (USD)	YoY (%)	P/E (X)	P/B (X)	EV/EBITDA (X)	ROE (%)	Dividend Rate (%)
FY 2019 (19.12.31)	2,310	-20	-5	113	-0.04	N/A	72.79	3.35	32.80	-0.37	1.82
FY 2020 (20.12.31)	2,788	637	499	760	4.48	N/A	8.38	3.20	5.17	44.85	1.56
FY 2021F (21.12.31)	3,125	825	625	983	6.09	41.39	7.58	2.92	4.82	37.93	1.35
FY 2022F (22.12.31)	3,009	535	401	692	4.02	-33.97	11.47	2.30	6.85	16.70	1.36

Source: Bloomberg, Hyundai Motor Securities

Stock pick for the first week of March

Louisiana-Pacific Corporation. (LPX.US)

Growing migration to suburban and rural areas and remodeling translates to growing sales for Louisiana-Pacific

Urban flight in the US lays foundation for solid investment opportunities

Louisiana-Pacific Corporation (LPX.US) is a manufacturer of construction products. Its products are used for the construction of homes, repair and remodeling, and outdoor structures. The Company operates in four segments: North America United Strand Board (OSB), Siding, Engineered Wood Products (EWP), and South America. OSB manufactures and distributes OSB structural panel products. Siding provides two types of products: SmartSide siding products and related accessories, and CanExel siding and accessories and other related products. EWP manufactures and distributes laminated veneer lumber, I-joints, laminated strand lumber, and related products. The South American division manufactures and distributes OSB and siding products in South America and specified export markets. Its engineered I-joists are utilized in commercial and residential flooring and roofing systems and in other structural applications.

Americans are leaving urban areas in what is the biggest urban exodus in the country's history. The COVID-19 pandemic which hammered the US economy and crushed urban living has hastened changes in the way in which people live and work, and these changes will likely persist. From remote working, either partially or completely, to studying from home, playing from home and entertaining from home, the mass migration to urban areas which had been taking place for the past few decades has made an about face. And it is not only the pandemic and the resulting lifestyle changes that have helped to drive this change, rather the seemingly never-ending rise of urban real estate prices, urban rents, taxes, cost of living, coupled with a shift in values which emerged from the pandemic has given birth to a new megatrend which will likely be in place for a generation or more.

And while the exodus was initially from traditional bastions of high prices—New York City, San Francisco, etc.—the flight from urban life continues to accelerate, now reaching cities which had been alternative 'lower cost of living' havens for weary urbanites from the leading urban centers of the east and west coasts. And regions with lower costs of living are benefitting from this flight. And companies which are helping to realize the growth and development of these rural and suburban regions are also enjoying strong growth – and this is evident in their share prices.

While there are several attractive names that we like in the homebuilding and building materials sectors, Louisiana-Pacific Corporation is our top pick this week as we believe the stock offers the most upside potential in the near- to mid-term. The stock has been performing well but still trades for 10x PER, and offers a DPS of 1.36%, which makes it great growth, value, and income stock, in our view.

Rationale

The combination of the pandemic, economic uncertainty, social unrest, and technological advancements is prompting Americans to leave major metropolitan areas to relocate to more sparsely populated parts of the country. The shifting of attitudes and technological improvements make working remotely more accessible than ever. And because of the aforementioned, people of all ages and economic brackets are relocating in record numbers to suburbs and small towns across the US. Even before the pandemic hit, Americans were leaving cities for suburban and rural areas for a variety of reasons. But the pandemic, along with cultural, economic, and technological changes has hastened this exodus. And the shakeup brought about by the socio-economic shift along with the cultural change which has taken place will likely remain in place for a generation or more. Young Americans without much money are increasingly moving to parts of the US where they can benefit from a lower cost of living. In particular, this shift is evident with those born in the 1980s and 90s, the so-called millennials. While many are purchasing new homes, there is a growing number buying older homes as they are less costly. And new homes, the restoration of old homes, and the remodeling of existing homes have one thing in common—a need for the materials which Louisiana-Pacific provides.

Since the start of the pandemic, roughly 70,000 people have left the NYC metro area in 2020, a loss of nearly USD34bn according to information research company Unacast. This continued exodus will continue to put financial pressure on cities, causing them to cut back on services, further hastening urban decay and incentivizing residents to seek alternatives in the suburbs and rural areas. Indeed, more than 40% of urbanites have browsed online for real estate, more than double the level of people that live in the country. According to Redfin (RFN.US), more than 25% of the searches for homes are coming from urbanites in Seattle, San Francisco, and DC searching for places to live in places with lower population densities. While the biggest and most expensive cities hold the top spots for urban flight, smaller cities are also undergoing a similar situation with places like Pittsburgh, Pennsylvania, Milwaukee, Wisconsin and Bridgeport, Connecticut steadily losing more residents. And the numbers bear this out with real estate in San Francisco down more than 50% while demand in its suburbs is surging, with prices up by around 10%. Places such as Montana, rural Colorado, Oregon, Maine, and the Sunbelt are seeing rapid growth.

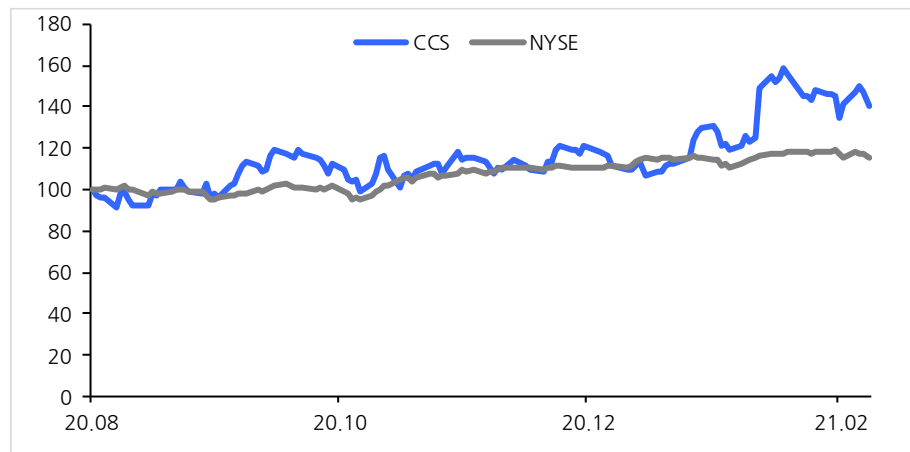
According to the Hotness rankings from Realtor.com, views per property in suburban zip codes jumped 13%, nearly doubling the growth rate of urban areas. Rents in suburban areas have also been on the rise, with areas like Oakland, Newark, and Sacramento seeing higher rents as people flock to these lower-priced areas. What is more, almost a third of Americans are now considering moving to a less-densely populated areas because of the pandemic.

People are also placing a greater value on internal and external space during the health crisis as they are spending more time at home and are worried about living close to each other in small apartment buildings, hence the flight from dense urban centers in pursuit of larger homes and more land. And this change is evident when looking at the data. For example, a website created in 2016 for the sales and

preservation of old houses CheapOldHouses, has seen an increase of its Instagram page every week since the Pandemic started in March. More than 40% of its followers are aged between 25-34 and 75% of them are women. However, the migration is not composed primarily of the traditional snowbird or Boomer retirees heading south to better climates, but it is made up increasingly of by Millennials and Generation Z with Gen X and Boomers not far behind. All of the requisite factors for a perfect storm have created this environment in which people are now increasingly making the decision to exit from major cities. The dense nature of urban living and lack of proper local government resulted in the incredibly rapid spread of the virus in the Big Apple.

Among the winners from this migratory boom are homebuilders, homebuilding and remodeling suppliers, and infrastructure companies. Some names that we like include the homebuilders Century Communities Inc. (NYSE: CCS), up 37.8% since we recommended it on Aug 25, 2020 vs the NYSE's 15.6% rise in the same period, Lennar (NYSE: LEN); for construction materials and building supplies we like Home Depot (NYSE: HD), and our pick for this week is Louisiana-Pacific Corporation (NYSE: LPX), a manufacturer of construction products. We particularly like Louisiana-Pacific because the company not only supplier homebuilders but also benefits from the remodeling boom taking place driven by the growing purchases of older low-cost homes but also by higher-end customers who are remodeling their homes to upscale their properties due to the increased time being spent at home to work, play, and attend school.

Fig 1. CCS Relative Return vs. NYSE Index since Aug 25, 2020



Source: Bloomberg, Hyundai Motor Securities

Louisiana-Pacific shares have displayed outstanding performance and offers growth and value

Louisiana-Pacific Corporation (LPIX.US) is a manufacturer of construction products. Its products are used for the construction of homes, repair and remodeling, and outdoor structures. The Company operates in four segments: North America United Strand Board (OSB), Siding, Engineered Wood Products (EWP), and South America. OSB manufactures and distributes OSB structural panel products. Siding provides two types of products: SmartSide siding products and related accessories, and CanExel siding and accessories and other related products. EWP manufactures and distributes laminated veneer lumber, I-joists, laminated strand lumber, and related products. The South American division manufactures and distributes OSB and siding products in South America and specified export markets. Its engineered I-joists are utilized in commercial and residential flooring and roofing systems and in other structural applications.

While Louisiana-Pacific shares have been displaying outstanding performance in 2020, they remain relatively inexpensive. Because of this, we believe investors looking for value with growth should accumulate shares. While it is true that the business in which the company is engaged is cyclical in nature, it does not appear that we are at the top of the cycle, so the stock is still at an attractive entry point. Louisiana-Pacific has recently had a string of positive developments, which include a 10% increase in its quarterly dividend; exceeding its three-year growth efficiency target with an EBITDA impact of nearly USD180mn; the completion of USD200mn of an authorized share buyback with USD300mn remaining. In addition, the company plans to spend USD220-230mn on CAPEX in 2021. USD100mn will be for maintenance, USD80-85mn for the Houston conversion, USD30-35mn for strategic growth projects, and USD10mn for Peace Valley.

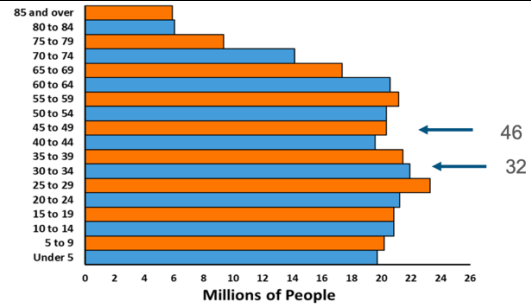
In terms of financial performance, Louisiana-Pacific has done swimmingly well during the pandemic. Revenue jumped nearly 21% while net income posted a minor loss that came in a tad below USD500mn. Ever more impressive, EPS advanced from a negative USD.04 in FY19 to USD4.46 in FY20. The company grew the bottom line by more than the top line through the tight control of expenses. In particular, it brought SG&A down by more than 8% (USD19mn), and cost of sales down by more than 4% (USD87mn). Investors should note that the company is engaged in a cyclical business, which has clearly undergone improvements, however volatility is an issue that investors should keep in mind. Nevertheless, as a cyclical company, it is now in a growth phase so the way to mitigate risk is to purchase at the right price, of course.

Fig 2. US single family housing starts (TTM, 1990-2020)



Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 3. US population age structure



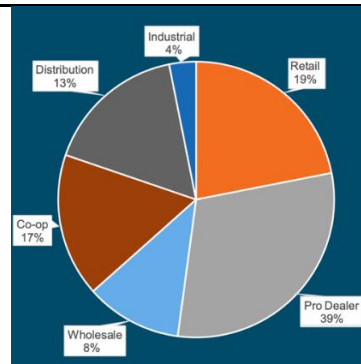
Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 4. Long runway for future growth

	Total Siding & Trim Market	Addressable Wood-Like Siding & Trim Market
Residential Repair & Remodel	\$4.7bn	\$3.1bn
Residential New Construction	\$3.5bn	\$1.9bn
Multi-Family (New Construction)	\$1.5bn	\$.4bn
Outdoor Building Structures	\$1.5bn	\$1.0bn
TOTALS	\$11.2bn	\$6.4bn

Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 5. 2020 OSB customer sales by channel



Source: Louisiana-Pacific, Hyundai Motor Securities

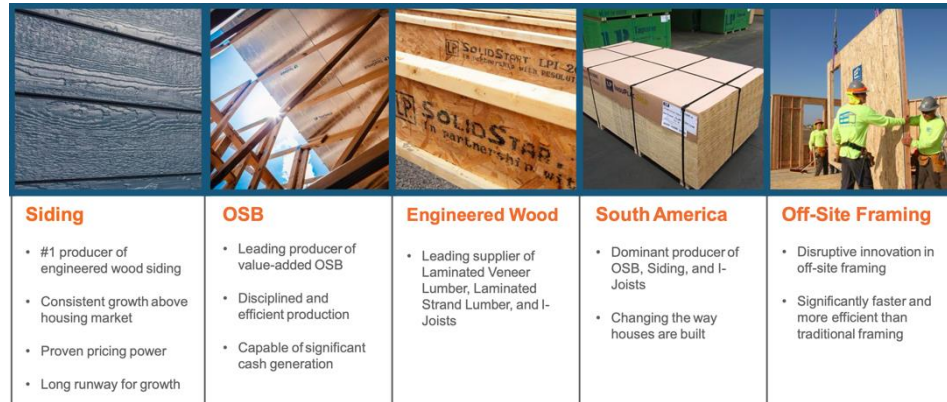
Fig 6. Louisiana-Pacific building solutions



- **Founded in 1972** and headquartered in Nashville, Tennessee
- **Pioneered U.S. production of Oriented Strand Board (OSB) panels** in 1982
- Proven leader in **strand-based engineered wood** building products
- Primary applications are new **residential construction and repair & remodel (R&R)**
- Committed to careful **stewardship and efficient use** of natural resources
- Operates **25 mills** in the U.S., Canada, Chile and Brazil and **employs 4,500 people**

Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 7. Leader across its markets



Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 8. FY20 vs. FY19

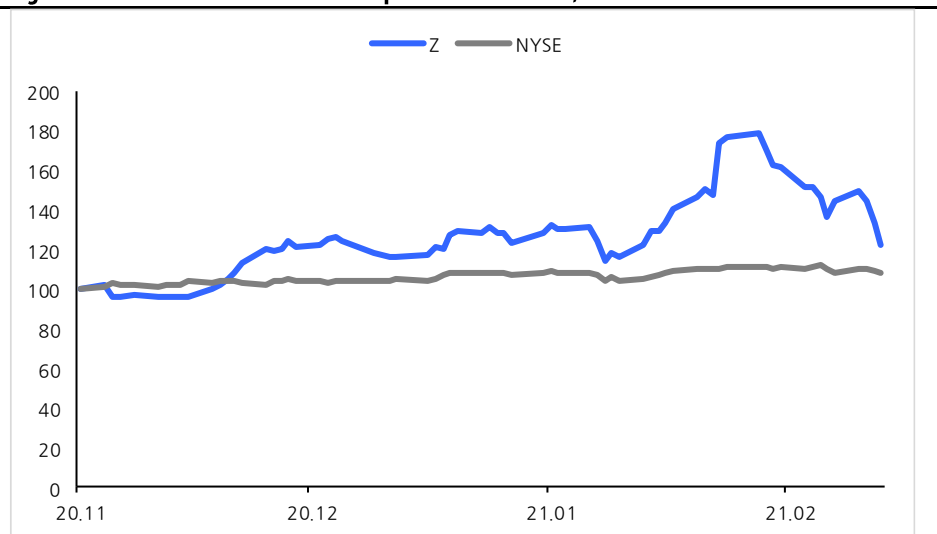
Segment	Growth	Efficiency	Total
2019 EBITDA Impact	\$28	\$40	\$68
Siding	\$68	\$9	\$77
OSB	\$11	\$12	\$23
EWP, LPSA, Corporate	\$0	\$10	\$10
2020 EBITDA Impact	\$79	\$31	\$110
Cumulative EBITDA Impact	\$107	\$71	\$178
2021 EBITDA Target	\$90	\$75	\$165

Source: Bloomberg, Hyundai Motor Securities

Falling urban home sales and rising suburban/rural home sales

While sales of urban dwellings continue to fall, a survey by real estate agents shows that nearly 50% of homebuyers prefer to buy homes in suburbs, and nearly 40% in rural areas, and 25% in small towns due to the pandemic. According to Zillow (NASDAQ: Z: up nearly 29% since we recommended it on Nov 20, 2020 vs. the Nasdaq’s rise of around 9%), there has been an upsurge in homebuyers looking for houses in suburban areas, accounting for 64% of searches for properties in rural and urban areas. And people are using platforms and technologies such as Zillow’s 3D Home tours to virtually tour home listings, and listings with this feature receive the majority of site visitors on the site.

Fig 9. Zillow Relative Return vs. Nasdaq Index since Nov 20, 2020



Source: Bloomberg, Hyundai Motor Securities

Rising mortgage applications

Suburbs across the US are experiencing a rise in mortgage applications, for suburbs in Chicago and DC, applications have jumped by 40% compared to pre-pandemic figures. And the American Enterprise Institute’s Housing Market Nowcast shows that between May-June 2020, home purchase mortgage rate locks in non-urban areas climbed 36% YoY with the least-dense zip codes growing at nearly double the rate of the densest with all metros experiencing the same pattern of homebuyers moving to areas within the city with fewer people.

The bottom line

While Louisiana-Pacific had an outstanding 2020 despite the economic slowdown from the pandemic, the next quarter at minimum will see many more positives. What is more, the shares remain attractively priced at current levels despite the expected positive developments. Overall, the performance has been superb, and the shares provide investors to buy growth at a value price with a dividend as an added bonus.

Fig 10. FY20 financial results

\$2.8bn	\$781mn	\$659mn	\$4.31
Net Sales	Adj. EBITDA	Op. CF	Adj. EPS
+21%	~4x	+\$500mn	+\$3.94
15%	+\$481mn	\$200mn	\$65mn
SmartSide	OSB Price	Share	Dividends
Growth	EBITDA	Buybacks	
	Impact		

Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 11. Revenue and EBITDA by segment

(All figures in USDmn)	Three Months Ended December 31		For the Year Ended December 31	
	2020	2019	2020	2019
Sales				
Siding	259	222	959	917
OSB	428	172	1220	777
EWP	108	93	389	396
South America	50	38	169	159
Other	16	12	53	66
Intersegment	-1		-1	-5
	<u>860</u>	<u>537</u>	<u>2788</u>	<u>2310</u>
Adjusted EBITDA				
Siding	77	41	246	169
OSB	249	6	519	10
EWP	2	3	23	26
South America	13	8	42	34
Other	-6	-2	-19	-3
Unallocated	-7	-7	-30	-27
	<u>328</u>	<u>49</u>	<u>781</u>	<u>209</u>

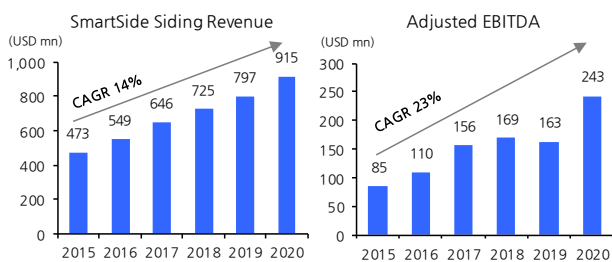
Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 12. 2021 Guidance

2021 Capital Expenditure Guidance	
Full-Year Capital Investment	\$220mn - \$230mn
Houlton Conversion	\$80mn - \$75mn
Other Strategic Growth Capital	\$40mn - \$45mn
Sustaining Maintenance Capital	\$100mn
1Q 2021 Revenue & EBITDA Guidance	
SmartSide YoY Revenue Growth	>35%
OSB Revenue Compared to 4Q 2020	>15% Increase
LP Consolidated Adjusted EBITDA	>\$380mn

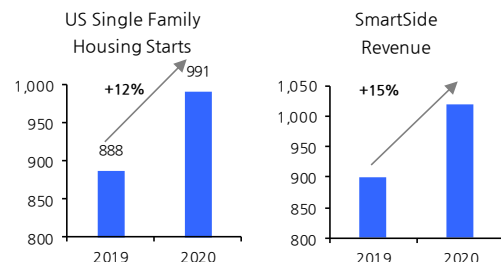
Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 13. SmartSide posts consistent growth



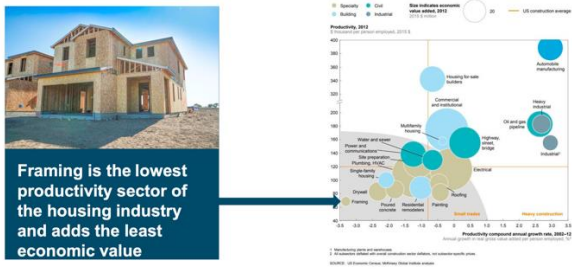
Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 14. US housing starts and SmartSide revenue



Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 15. Entekra improves framing productivity



Source: Louisiana-Pacific, Hyundai Motor Securities

Fig 16. Louisiana-Pacific profit process



Source: Louisiana-Pacific, Hyundai Motor Securities

Foreign Institution Recommendation

Consensus position on LPX



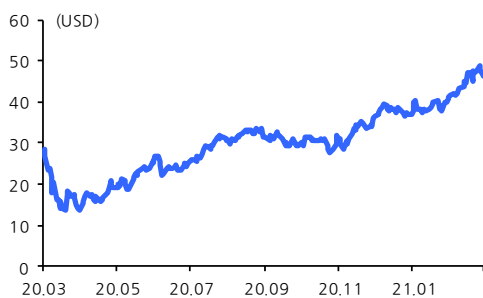
Source: Bloomberg, Hyundai Motor Securities

Analyst Recommendation

Institution	Recommendation	Target Price (USD)	Published Date
Scotiabank	Sector perform	50	2021-03-02
Longbow Research	Neutral	-	2021-02-19
RBC Capital Markets	Outperform	58	2021-02-17
Stephens Inc	Equalweight	47	2021-02-17
TD Securities	Hold	48	2021-02-17
ISS-EVA	Buy	-	2021-02-17
BMO Capital Markets	Outperform	55	2021-02-16
D.A. Davidson & Co	Buy	55	2021-02-16
Seaport Global Securities	Buy	53	2021-02-16
Morningstar, Inc	Sell	24	2021-02-16
ERA Forest Products (Research Alliance)	Hold	21	2019-08-16

Source: Bloomberg, Hyundai Motor Securities

Fig 17. LPX Stock Price



Source: Bloomberg, Hyundai Motor Securities

(USD mn)	FY16	FY17	FY18	FY19	FY20
Revenue	2,233	2,734	2,828	2,310	2,788
COGS	1,829	1,998	2,084	2,007	1,920
Gross Profit	404	736	744	303	868
SG&A	185	191	209	227	208
R&D Expense	—	0	—	0	0
Other Operating Expense	9	12	9	93	20
Operating Profit	210	533	526	-20	637
Non-operating loss	45	23	2	3	16
Income Before Tax	165	510	524	-23	621
Tax Expense	20	119	122	-13	125
Net Income	150	282	391	50	496
Net Income to Common SH.	150	390	395	-5	499
EPS	1.04	2.7	2.76	-0.04	4.48

Balance Sheet

(USD mn)	FY16	FY17	FY18	FY19	FY20
Total Asset	2,031	2,449	2,514	1,835	2,087
Cash & Equivalent	659	928	878	181	535
Accounts Receivable	96	147	87	111	161
Inventory	235	259	273	265	259
Tangible Asset	883	982	1,073	1,072	1,010
Intangible Asset	57	71	67	90	46
Total Liability	836	844	814	834	843
Current Liability	229	270	262	244	286
Long-term Debt	607	574	552	590	557
Total Equity	1,196	1,605	1,700	1,001	1,244
Equity Capital	144	145	137	112	106
Capital Surplus	478	471	458	454	452
Retained Earnings(Loss)	890	1,280	1,613	966	1,206

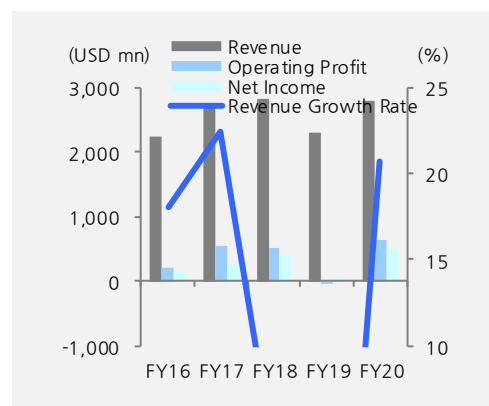
CashFlow Statement

(USD mn)	FY16	FY17	FY18	FY19	FY20
CF from Operating Activities	342	474	511	159	659
Depreciation & Amortization	113	123	120	123	111
Changes in NWC	48	-57	10	-60	15
CF from Investment Activities	285	-199	-238	-137	-49
Capital Expenditure	-125	-145	-213	-163	-77
Long-term Investment	0	0	0	0	0
M&A	0	-21	0	30	0
CF from Financing Activities	-407	-9	-317	-717	-272
Cash Dividend Payout	0	0	-74	-65	-65
Long-term Borrowing	-393	-3	-25	-5	0
Stock Repurchase	0	0	-212	-638	-200
Cash Increase	224	269	-50	-697	340
FCF	218	325	296	-4	582

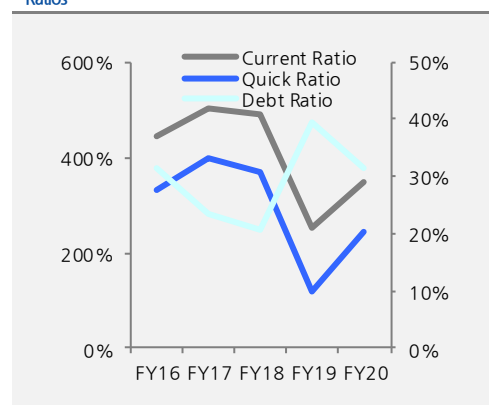
Key Ratios

(%, X)	FY16	FY17	FY18	FY19	FY20
Gross Margin	9.41	19.49	18.60	-0.87	22.85
EBITDA Margin	14.46	24.00	22.85	4.89	27.26
ROE	13.54	27.84	23.88	-0.37	44.85
ROA	7.12	17.40	15.90	-0.23	25.45
ROIC	11.22	22.91	19.50	-0.26	31.99
Debt Ratio	31.53	23.43	20.70	39.56	31.44
Current Ratio	4.44	5.03	4.92	2.54	3.47
Quick Ratio	3.30	3.98	3.69	1.20	2.43
CF/Current Liability	2.88	3.44	3.36	0.74	1.87
PER	24.06	13.65	8.22	72.79	8.38
PBR	2.28	2.37	1.79	3.35	3.20
EV/EBITDA	7.57	4.96	3.89	31.35	5.02
Dividend Yield(T12M)	—	—	2.34	1.82	1.56

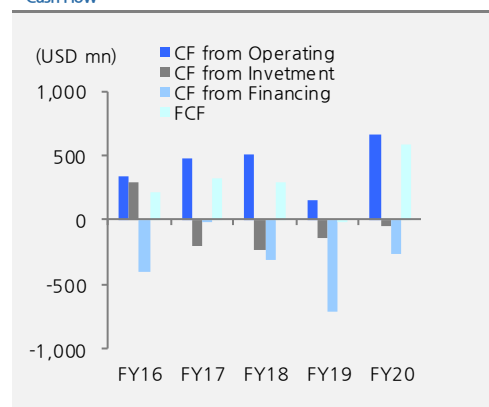
Source: Bloomberg, Hyundai Motors Securities



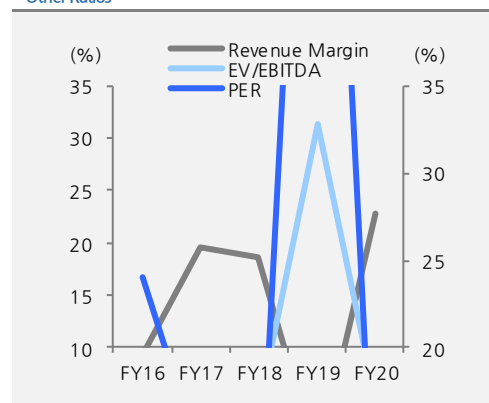
Ratios



Cash Flow



Other Ratios



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Hyundai Motor Securities offers three sector investment ratings based on six-month forward fundamentals and share price outlook.

- **OVERWEIGHT:** Sector-wide fundamentals and share prices are expected to turn up.
- **NEUTRAL:** No meaningful fundamental improvement is expected.
- **UNDERWEIGHT:** Sector-wide fundamentals and share prices are expected to turn down.

Hyundai Motor Securities offers three company investment ratings based on the relative return expected in the following six months, based on the closing price on the date of rating declaration.

- **BUY:** Excess return of +15%p or more
- **MARKETPERFORM (M.PERFORM):** Excess return of between -15%p and +15%p
- **SELL:** Excess return of -15%p or less

Stock ratings distribution (January 1-December 31, 2020)

Rating	Count	% of rating category
BUY	145	89%
MARKETPERFORM	18	11%
SELL	0	0%

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