

CANFOR PULP PRODUCTS INC. CFX.

Report Date : **05Sep18** Price : **\$ 27.28**

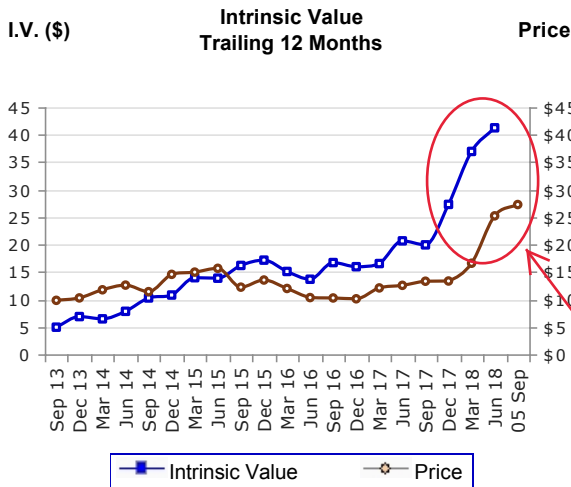
Address **1700 West 75th Avenue, Suite 230
Vancouver, British Colum CANADA V6P 6G2**
Telephone **604-661-5241**
Stock Exchange **TSE**
Web Site **http://www.canfor.com**
Fiscal Year **December**
Economic Sector **Materials**
SIC **2611**
Price / Earning Ratio **9.6**
Price / Book Value Ratio **3.06**
Currency **CND \$ in Millions**

CFX, based in Vancouver, BC, is a Canadian producer and vendor of high-quality pulp and paper.

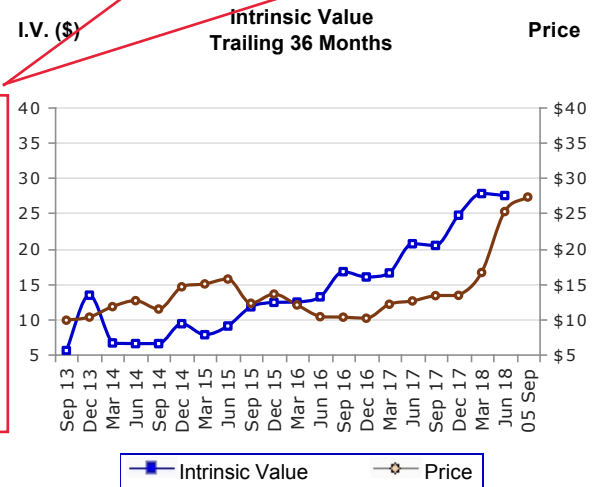
Intrinsic Value	IV	Price / IV
Trailing 12 Months :	\$ 41.26	0.66
Trailing 36 Months :	\$ 27.49	0.99
Market Value Added (MVA)	\$	%
Market Value of Total Capital :	1,897,293	100.0%
- Invested Capital :	698,840	36.8%
= Market Value Added :	1,198,454	63.2%
Future Growth Value (FGV)	\$	%
Market Value of Total Capital :	1,897,293	100.0%
- Current Operating Value :	2,590,205	136.5%
= Future Growth Value :	(692,912)	-36.5%

Peers US: BTG CRTSF CVIA IAG MERC MTRN NGVT NP PAEKY PITPY RGORF SWM SXCP TRQ WLKP
Peers CND: BTO. CEU. CG. CHE.UT DGC. EDV. IMG. ITP. KL. OGC. PAAS. TRQ. WEF. WPK. WPM.

INTRINSIC VALUE



CFX is a good investment opportunity right now since a P/IV below 1 indicates an undervalued stock. For CFX this ratio is at 0.66. Furthermore, a negative Future-Growth-Value (FGV) of -36.5% confirms the stock is trading at a discount.



Trailing 12 Months

Trailing 36 Months

JUN14	JUN15	JUN16	JUN17	JUN18	JUN14	JUN15	JUN16	JUN17	JUN18
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PERFORMANCE

82.762	100.492	101.105	88.238	189.441	NOPAT	54.804	71.960	94.786	96.612	126.261
594.076	667.770	661.458	691.158	698.840	+ Capital	594.076	667.770	661.458	691.158	698.840
13.9%	15.0%	15.3%	12.8%	27.1%	= Return / Capital	10.6%	11.4%	14.8%	14.3%	18.5%
12.7%	10.4%	9.7%	7.3%	7.3%	- Cost of Capital	12.7%	10.4%	9.7%	7.3%	7.3%
1.3%	4.6%	5.6%	5.4%	19.8%	= Performance Spread	-2.1%	1.0%	5.1%	7.0%	11.2%

VALUATION

63.424	422.548	403.185	828.951	2,056.316	Future EVA	(29.869)	81.275	367.323	828.951	1,158.360
630.555	701.709	692.675	716.074	723.944	+ Capital (Adj. Mid-Year)	630.555	701.709	692.675	716.074	723.944
693.979	1,124.257	1,095.860	1,545.025	2,780.261	= Total IV	600.686	782.984	1,059.998	1,545.025	1,882.305
50.000	50.000	50.000	50.000	0.000	- Long Term Debt	50.000	50.000	50.000	50.000	0.000
88.100	100.200	118.800	127.500	88.300	- Other Liabilities	88.100	100.200	118.800	127.500	88.300
555.879	974.057	927.060	1,367.525	2,691.961	= IV of Equity	462.586	632.784	891.198	1,367.525	1,794.005
71.007	70.263	67.815	66.181	65.251	+ Shares Outstanding	71.007	70.263	67.815	66.181	65.251
\$ 7.83	\$ 13.86	\$ 13.67	\$ 20.66	\$ 41.26	= IV of a Share	\$ 6.51	\$ 9.01	\$ 13.14	\$ 20.66	\$ 27.49
\$ 12.60	\$ 15.66	\$ 10.33	\$ 12.56	\$ 25.22	Share Price	\$ 12.60	\$ 15.66	\$ 10.33	\$ 12.56	\$ 25.22
1.61	1.13	0.76	0.61	0.61	Price / Intrin. Value	1.93	1.74	0.79	0.61	0.92

The NOPAT trend is attractive as it increased at a rate of 31% on average over the 5 year period. Furthermore, a return/capital (ROC) above 10% is a great sign, for CFX this was the case in each of the past 5 years and it currently stands at 27.1% which is excellent. It is also important to compare the ROC to the cost of capital (COC) to get an idea of the company's performance. The COC is on a downward trend and currently stands at 7.3%.

FOR INFORMATION CFX paid out some of its debt, cancelling out the balance of long term debt and reducing the balance for other liabilities.

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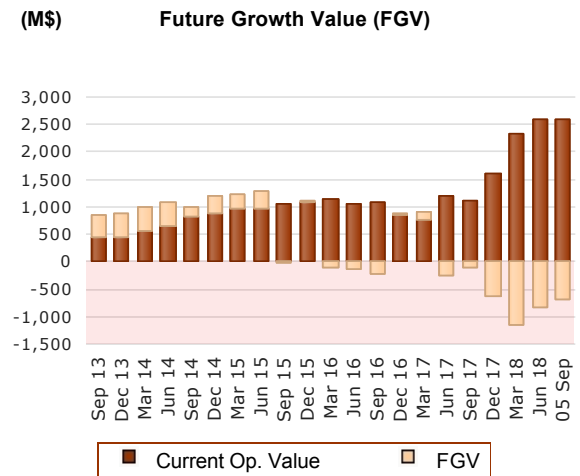
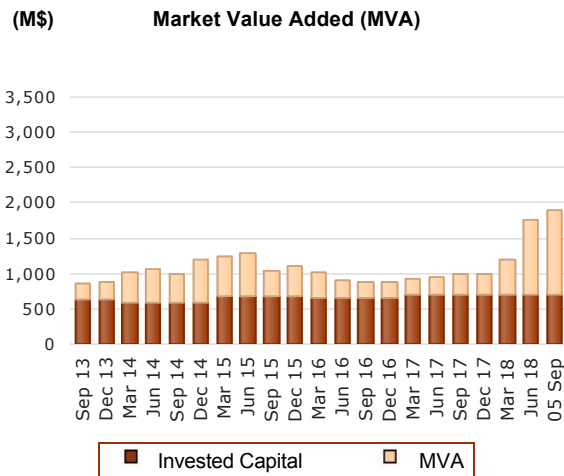
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The current operating value has been increasing at a rate of 46% over the past 5 years, whereas the stock price has been increasing at a rate of 32% over the same period. This explains why the Future Growth Value(FGV) is implying that they stock is still undervalued.

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MARKET PERFORMANCE



Trailing 12 Months					Quarterly					
JUN14	JUN15	JUN16	JUN17	JUN18	Price	JUN17	SEP17	DEC17	MAR18	JUN18
\$ 12.60	\$ 15.66	\$ 10.33	\$ 12.56	\$ 25.22		\$ 12.56	\$ 13.31	\$ 13.35	\$ 16.59	\$ 25.22
Market Value Added (MVA)						Market Value Added (MVA)				
1,071.215	1,277.366	901.954	951.664	1,762.877	Total Market Value	951.664	996.600	988.357	1,199.763	1,762.877
594.076	667.770	661.458	691.158	698.840	- Invested Capital	691.158	691.158	691.158	698.840	698.840
477.140	609.596	240.496	260.506	1,064.037	= MVA	260.506	305.442	297.199	500.923	1,064.037
45%	48%	27%	27%	60%	% Market Value	27%	31%	30%	42%	60%
Current Operating Value (COV)						Current Operating Value (COV)				
82.762	100.492	101.105	88.238	189.441	NOPAT	88.238	82.088	114.468	150.326	189.441
12.7%	10.4%	9.7%	7.3%	7.3%	÷ Cost of Capital	7.3%	7.5%	7.1%	6.4%	7.3%
653.830	964.097	1,046.473	1,202.166	2,590.205	= COV	1,202.166	1,099.780	1,613.181	2,340.243	2,590.205
61%	75%	116%	126%	147%	% Market Value	126%	110%	163%	195%	147%
Future Growth Value (FGV)						Future Growth Value (FGV)				
1,071.215	1,277.366	901.954	951.664	1,762.877	Total Market Value	951.664	996.600	988.357	1,199.763	1,762.877
653.830	964.097	1,046.473	1,202.166	2,590.205	- COV	1,202.166	1,099.780	1,613.181	2,340.243	2,590.205
417.385	313.269	(144.519)	(250.502)	(827.328)	= FGV	(250.502)	(103.180)	(624.824)	(1,140.480)	(827.328)
39%	25%	-16%	-26%	-47%	% Market Value	-26%	-10%	-63%	-95%	-47%

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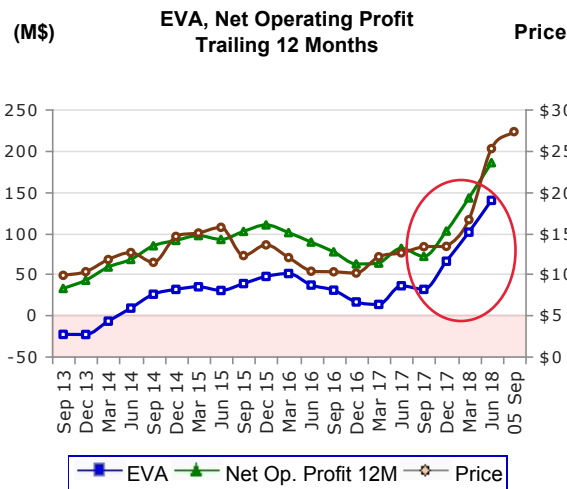
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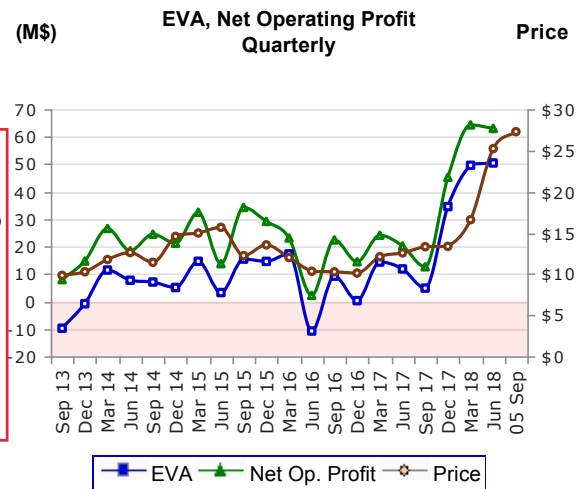
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ECONOMIC PERFORMANCE



CFX's total Economic Value Added (EVA) is on an upward trend. This is what we'd like to see for a good stock pick. In addition the EVA is at an all-time high at 139.4M. The EVA increase acts as a support to the price increase the stock has experienced.



Trailing 12 Months					Quarterly					
JUN14	JUN15	JUN16	JUN17	JUN18	JUN17	SEP17	DEC17	MAR18	JUN18	
Net Operating Profit After Tax (NOPAT)										
102.000	121.700	125.200	120.600	258.400	Operating Profit	31.500	21.100	66.800	85.100	85.400
10.391	16.212	14.112	6.541	6.248	+ Adjustments	1.669	1.669	1.669	1.226	1.684
29.628	37.420	38.207	38.902	75.207	- Income Tax	9.077	5.677	21.677	23.977	23.877
82.762	100.492	101.105	88.238	189.441	= NOPAT	24.092	17.092	46.792	62.350	63.207
Economic Value Added (EVA)										
82.762	100.492	101.105	88.238	189.441	NOPAT	24.092	17.092	46.792	62.350	63.207
74.269	70.548	64.612	52.603	50.077	- Capital Charge	12.261	12.261	12.261	12.778	12.778
8.493	29.944	36.493	35.635	139.364	= EVA	11.831	4.831	34.531	49.572	50.429
36.274	21.450	6.549	(0.857)	103.728	Change in EVA	(2.500)	(7.000)	29.700	15.040	0.858
Analysis										
594.076	667.770	661.458	691.158	698.840	Capital	691.158	691.158	691.158	698.840	698.840
13.9%	15.0%	15.3%	12.8%	27.1%	Return / Capital	3.5%	2.5%	6.8%	8.9%	9.0%
1.10	1.44	1.58	1.74	3.71	Performance Index	0.47	0.33	0.95	1.39	1.24
0.01	0.05	0.05	0.05	0.20	EVA / Capital	0.02	0.01	0.05	0.07	0.07
\$ 0.12	\$ 0.43	\$ 0.54	\$ 0.54	\$ 2.14	EVA / Share	\$ 0.18	\$ 0.07	\$ 0.53	\$ 0.76	\$ 0.77
\$ 0.51	\$ 0.31	\$ 0.11	\$ 0.00	\$ 1.60	Change in EVA / Share	\$ (0.04)	\$ (0.10)	\$ 0.46	\$ 0.23	\$ 0.01

The NOPAT trend is important when trying to identify whether the company's wealth creating ability is steady or slowing down. As we can see, NOPAT grew by 31%, on average, over the past 5 years. On the other hand, the capital charge has been decreasing. Those 2 factors together led to the high EVA.

Moreover, the performance index has been linearly rising since 2014 indicating improved economic performance year over year (YOY).

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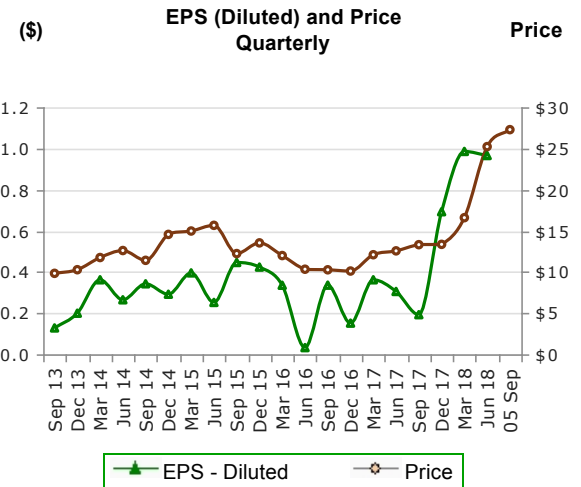
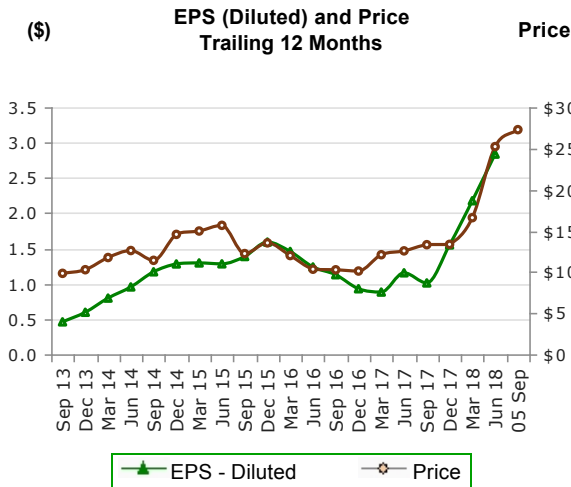
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ACCOUNTING PERFORMANCE



Trailing 12 Months

Quarterly

JUN14 JUN15 JUN16 JUN17 JUN18 JUN17 SEP17 DEC17 MAR18 JUN18

Selected Income Statement Items

920.600	1,051.400	1,177.400	1,139.500	1,363.900	Sales	280.900	284.900	322.900	359.700	396.400
728.300	839.100	954.800	916.000	1,000.100	Cost of Goods Sold	224.300	238.900	230.400	246.900	283.900
@NA	@NA	@NA	@NA	@NA	R + D	@NA	@NA	@NA	@NA	@NA
102.000	121.700	125.200	120.600	258.400	Operating Profit	31.500	21.100	66.800	85.100	85.400
67.800	90.700	86.200	76.800	185.100	Net Income	20.200	12.600	45.200	64.300	63.000
\$ 0.21	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	Dividends	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06
\$ 0.95	\$ 1.28	\$ 1.24	\$ 1.15	\$ 2.84	EPS	\$ 0.31	\$ 0.19	\$ 0.69	\$ 0.99	\$ 0.97
\$ 0.95	\$ 1.28	\$ 1.24	\$ 1.15	\$ 2.84	EPS - Diluted	\$ 0.31	\$ 0.19	\$ 0.69	\$ 0.99	\$ 0.97
71.007	70.263	67.815	66.181	65.251	Common Shares	66.181	65.481	65.259	65.251	65.251

Selected Balance Sheet and CashFlow Items

274.000	351.300	299.200	367.600	519.400	Current Assets	367.600	348.500	365.000	437.700	519.400
@NA	@NA	@NA	@NA	@NA	Other Assets	@NA	@NA	@NA	@NA	@NA
133.000	138.600	136.700	146.900	212.500	Current Liabilities	146.900	135.200	161.500	174.100	212.500
345.300	354.500	368.900	382.400	367.400	Total Liabilities	382.400	366.600	345.300	328.700	367.400
465.900	519.800	459.100	502.200	693.000	Common Equity	502.200	508.100	571.400	634.000	693.000
61.000	74.300	(20.900)	80.200	152.800	Free CashFlow	20.500	(2.900)	45.200	42.500	68.000

- Dividend payout has been stable since 2015 while the EPS increased YOY. The payout ratio has become more conservative, currently standing at 8.8% versus 20% back in 2014.
- Rising net income, Free-cashflows, and sales are all promising signs for Canfor Pulp Products given the fact that the company paid out a large chunk of its debt outstanding.

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