

# PALOS

## CONTENTS

## Weekly Commentary

Issue No. 52 | DECEMBER 14, 2020

Interfor – Building a Lumber Giant	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By [Charles Marleau CIM<sup>®</sup>](#) and [William Mitchell CIM<sup>®</sup>](#)

## Interfor – Building a Lumber Giant

**Interfor Corp.** (TSX: IFP) is a Canada based harvester and manufacturer of logs, lumber products, and wood chips. The company operates twelve sawmills and manufacturing facilities in Western Canada (B.C.), the U.S. Pacific northwest (Washington and Oregon), and the U.S. south west (Georgia). In addition, Interfor operates a transportation/shipping business (majority-owned Seaboard Shipping) and some short-haul railroads in Canada. Interfor serves commercial and retail customers in roughly 50 markets around the globe. The large portfolio of diverse lumber products includes decking, construction (framing, trusses, doors), furniture, industrial packing (pallets), and finished paneling.

In the company's most recent earnings release on November 5, Interfor announced a record 3rd quarter of \$126.1million (\$1.81 per share) versus \$23.2 million (\$0.05 per share) for the second quarter of this year. By comparison, the same quarter in 2019 generated an adjusted net loss of \$35.6 million. Adjusted EBITDA in Q3 reached a record \$221.7 million on sales of \$644.9 million versus EBITDA of \$42.8 million/sales \$396.8 million in Q2. Key to these significant improvements was the recent surge in lumber prices. While the initial economic fallout from COVID softened prices in the first quarter, a quick turnaround took hold in Q2 with demand creation from "stay-at-home" renovation projects and strong housing starts boosting prices. Many analysts believe these trends will continue.

Total production in the quarter was 642 million board feet (mmbf) versus 421 mmbf in Q2, an increase of 52%. Interfor's solid balance sheet puts the company in a strong position to explore potential investment opportunities and pursue capital expenditures. Management has also confirmed that the Toronto Stock Exchange (TSX) had approved the company's **Normal Course Issuer Bid** (NCIB) which gives the company the ability to repurchase up to 10% of the public float. NCIB's are commonly used when a company believes its shares are undervalued. Buybacks are widely viewed as an efficient way to allocate capital.

Interfor's vision is to not only remain a highly profitable company, but to safeguard its reputation as a company that values sustainability, environmental responsibility, social engagement, and employee well-being. Interfor embraces its commitment to a set of core values that includes respect, honesty, and integrity when dealing with customers, employees, and the communities in which they operate. The company is a leader in sustainable forestry management, wildlife protection, resource conservation and biodiversity.

*By Charles Marleau CIM<sup>®</sup> and William Mitchell CIM<sup>®</sup>*

We view Interfor as the premier Canadian company in the forest products sector given its geographical exposure to the U.S. southeast and Pacific northwest. The U.S. market accounts for 85% of sales with Canada at 6%, Japan at 5% and China at 3%. Approximately 70% of production is based in the U.S. With tightening supply and growing demand, prices should remain strong well into 2021 and possibly beyond. Strong tailwinds supporting infrastructure, housing, and commercial usage bolsters our bullish views on both the industry and the company. Shares in IFP are currently held in our Palos WP Growth Fund and The Palos-Mitchell Alpha Fund.

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.78	12.69%
Palos Equity Income Fund - RRSP	PAL101	\$6.30	11.94%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$12.54	63.83%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$11.51	10.92%
S&P TSX Composite (Total Return with dividends reinvested)			6.08%
S&P 500 (Total Return with dividends reinvested)			15.39%
S&P TSX Venture (Total Return with dividends reinvested)			35.48%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			0.90%
Canadian Government 10-Year			0.71%
Crude Oil Spot			US \$46.57
Gold Spot			US \$1839.80
US Gov't10-Year/Moody BAA Corp. Spread			223 bps
USD/CAD Exchange Rate Spot			US \$0.7830

<sup>1</sup> Period ending December 11, 2020. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays



# Weekly Commentary

Issue No. 52 | DECEMBER 14, 2020

## Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.

# PALOS

1 Place Ville Marie, Suite 1670  
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504  
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

[www.palos.ca](http://www.palos.ca)