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Building Materials

Institutional Equity Research
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INDUSTRY UPDATE

Price (4/4/25)
Industry: DIVERSIFIED INDUSTRIALS

Kurt Yinger
(503) 603-3028
kyinger@dadco.com

Aditya Madan
(503) 603-3035
amadan@dadco.com

Tariff Exempt, But Lumber to be Subject to Increased Duties

On Friday, the Department of Commerce released its preliminary report covering the annual review of countervailing duties, which points to the duty rate that most Canadian mills pay more than doubling later this year. Together with the preliminary antidumping duty rates announced last month, combined duty rates look to increase from 14.4% on average currently, to 34.5%. While lumber was exempt from universal/reciprocal tariffs announced last week, the separate duties are likely to serve a similar purpose once finalized/implemented later this year.

On Friday, the U.S. Department of Commerce released its preliminary countervailing determination, which points to countervailing duty rates on softwood lumber imports from Canada rising to 14.4% on average, a meaningful increase from the current 6.7% rate. While the determination is yet to be finalized and subject to change, we would expect those final rates to be comparable to the preliminary levels outlined. West Fraser and Canfor were individually investigated with respective preliminary rates assessed being 16.6% and 11.9%, the rate for all other producers of 14.4% representing the weighted average of those two companies investigated.

Together with the preliminary "all other" antidumping duty rate of 20.1%, combined duty rates on Canadian producers outside of West Fraser and Canfor would be 34.5%, up from 14.4% at present. As discussed in our note from early March (*Prelim Duty Determination & Tariffs Add to Lumber Bull Case*), preliminary AD duty rates announced would add 12.4% to the all other combined duty rate, the CVD announcement representing an additional 7.7% increase. Together, the additional duties that producers in Canada will likely need to pay once rates are finalized will make it extremely difficult to remain profitable shipping into the U.S. at current market pricing.

Additional separate tariffs still possible... While it appears lumber is exempt under the new universal/reciprocal tariffs recently announced, an investigation under section 232 of the Trade Expansion Act has been initiated to determine the effects national security related to the import of timber, lumber, and derivative products, which could result in tariffs, export controls, or incentives to increase domestic production. Ultimately, it's possible that Canadian mills (and imports from Europe) could face additional cost/trade restrictions related to the investigation, which would add to the sting of rising duty rates.

As we wrote last month, we are skeptical that U.S. lumber producers would be able to fill the potentially substantial void created should Canadian producers look to curtail, or meaningfully divert production to other markets as a result of continued price/cost challenges. In 2024 imports from Canada accounted for ~25% of U.S. softwood lumber consumption. For every 10% reduction in Canadian softwood lumber imports that would be satisfied by domestic production, we estimate a commensurate 250bp-300bp lift in U.S. mill operating rates (vs a 78%-79% level in 2024). All else equal, assuming a 30% reduction in Canadian imports relative to 2024 levels, U.S. mill operating rates could rise to 85%-86%, matching levels seen in 2021 when peak lumber pricing was observed.

We remain positive on the vertically-integrated Timber REITs, PCH (Buy) and WY (Buy), both of whom would be significant beneficiaries of rising lumber prices that we believe could result from additional supply-side responses stemming from increased duties later this year. The balanced offensive (commodity wood product price leverage) and defensive (stable timberland values) characteristics of the Timber REITs we also see as compelling within building products amidst increased uncertainty around underlying market demand. Shares of PCH and WY are off 10%-11% since the April 2nd tariff announcements, now trading at 30%-35% discounts relative to our NAV estimates, wider than the 15%-20% average discount shares have traded at over the last five years.

Please refer to pages 2 - 3 of this report for detailed disclosure and certification information.

Potential Risks

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BUY: Expected to produce a total return of over 15% on a risk adjusted basis over the next 12-18 months
NEUTRAL: Expected to produce a total return of -15% to +15% on a risk adjusted basis over the next 12-18 months
UNDERPERFORM: Expected to lose value of over 15% on a risk adjusted basis over the next 12-18 months

Rating Distribution (as of 12/31/24)	Coverage Universe Distribution			Investment Banking Distribution		
	IR	WMR	Combined	IR	WMR	Combined
BUY (Buy)	56%	84%	60%	12%	0%	11%
NEUTRAL (Hold)	43%	12%	39%	6%	0%	5%
UNDERPERFORM (Sell)	1%	4%	1%	0%	0%	0%

IR denotes Institutional Research; WMR denotes Wealth Management Research whose rating scale is Buy/Add, Neutral, Sell/Reduce. Investment Banking Distribution denotes companies from whom D.A. Davidson & Co. has received compensation in the last 12 months. Best-of-Breed: Expected to outperform on a risk adjusted basis over a five-year time horizon.

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Other Companies Mentioned in this Report

Company Name	Ticker	Rating	Price
PotlatchDeltic Corporation	PCH	BUY	$40.38
Weyerhaeuser Company	WY	BUY	$26.26
Builders FirstSource, Inc.	BLDR	NEUTRAL	$123.96
Boise Cascade Company	BCC	BUY	$95.44
UFP Industries, Inc.	UFPI	NEUTRAL	$106.44
BlueLinx Holdings Inc.	BXC	BUY	$72.87