Financial Analysis of TimberWest Forest Corp. in comparison with the industry and major competitors

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Abstract

TimberWest Forest Corp. is the largest timber and land management company in Western Canada. Still recovering from the huge housing recession in the US since 2008, the company is struggling with performance issues which ultimately lead to a degree of financial crisis and trust issues from both shareholders and debtors. With a recent money raising campaign in 2008, the company had raised nearly 60 million dollars from existed and additional shareholders to improve their financial condition and debt management. The management team will have to fully investigate the company’s operating efficiency, profitability and current financial position to determine the use of the new capital. In this report, financial analysis of the company’s operation will be conducted to determine the company’s efficiency and profitability in comparison with the industry index values. Study tools such as company profile, key factors, financial statements and financial ratios will be discussed. The results will provide accurate information of the company’s position in the forestry industry as well as the company’s competitiveness against other major corporations in the industry. The report will also suggest recommendations for TimberWest Forest Corp. towards improving their current operation.
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Keywords: TimberWest Forest Corp. Financial, Ratios, Fundamental, Report, Trends, Financial Statements, Profile, Facts, Financial Analysis

1.0 Introduction

1.1 The Company

TimberWest Forest Corp. is the largest timber and land management company in Western Canada. Incorporated on January, 31, 1997, the publicly owned company acquired TFL Forest Ltd. and Pacific Forest Ltd. with over 334,000 hectares of private and crown timberlands. In year 2010, the company has maintained 322,000 hectares of private forest lands with majority Douglas firs, largely located on the eastern side of Vancouver Island (1).

Annual harvest average of TimberWest Forest Corp. has been very stable at about 2.387 million m$^3$ for the past 5 years and it is growing at 8 m$^3$ per hectare per year on productive land base. 0.3 million m$^3$ of the total logging volume are harvested from Crown lands. The company is entitled to harvest up to 0.7m$^3$ per year from Crown lands under the Forestry Practice Code of British Columbia Act and Range Practices Act. In addition to logging, the company also develops some of its private land as well as selling higher value real estate lands.

1.2 Industry Overview

TimberWest experienced consistent growth with the industry from the year of 1997 to 2008 up until the impact of the US housing crisis. It was the most difficult year for the company since its incorporation (3). As The United States was the major customer of the company, sales from operation in 2008 were $163.7 million dollars in value (2), down from $318 million dollars in the sales report for the year of 2007 (3). The log sales were down close to 40% overall, resulting in a 50 year low point in the industry. Logs volumes in 2008 were down to 1.9 million m$^3$ to 2.6 million m$^3$ compared to 2007. The price of logs also dropped from an average of $93 per m$^3$ to an average of $76 per m$^3$. The high exchange rate of the Canadian dollar also played a part in the recession, causing US buyers to decrease importation of logs from Canada. Furthermore, the Elk Falls sawmill, a sawmill that operated under the ownership of TimberWest Forest Corp., also experienced the lowest sales in the past 10 years, with a sales value of $34.6 million dollars compared to $76 million dollars in the year 2007 (4). The company finally decided to pursue a permanent closure of the sawmill, writing off an 18.4 million dollars loss in assets and a disposal fee of 7.7 million dollars on the balance sheet. The company then announced an immediate action to raise a funding of $150 million dollars by way of a convertible debenture issue (3). In 2009 and 2010, positive market shares from Asia boosted the log sales volumes by almost 300%. Domestic and US sales also increased by
close to 100%. The real estate division also increased its revenue by about 10%. Other statistical information confirmed that the industry is recovering from the recession (2)(3).

1.3 Major Competitors

Conifex Timber Inc.

As one of TimberWest’s main competitors, Conifex Timber Inc. is a Vancouver-based company engaging in timber harvesting, forest management, lumber production and lumber finishing. Unlike TimberWest, the company relies heavily on sawmilling and is capable of producing 445 million board feet of lumber on a forest licence with annual allowable cut up to 932,500 m³ per year. Its main customer bases include The United States, China, Japan and Canada (8).

Deltic Timber Corporation

Deltic Timber Corporation is an Arizona-based company in the United States, titled as a natural resources management company. The company’s main operations include growing and harvesting timber as well as the marketing and manufacturing of lumber. As a well established public company, the company also operates in 3 other segments other than its wood production including sawmilling, real estate and corporate management. Deltic owns about 445,800 acres of timberland, oil and gas mineral resources and hunting lands resulting in about $43.5 million dollars in sales in 2010 (8).

Canfor Corporation

Canfor Corporation is forest products company based in Vancouver, British Columbia. Its primary products include softwood lumber, oriented strand board, remanufactured lumber products and specialized wood products. Its production facilities are spread throughout North America including British Columbia, Alberta, Quebec and northern United States. In terms of investment, the company has a 50.2% interest in Canfor Pulp Limited Partnership, a 50% interest in Peace Valley OSB and a 100% ownership in Taylor Pulp mill located in Taylor, BC. The company has reached a total sale of $2430.4 million dollars marketing their lumber to Canada, Myrtle Beach, South Carolina, Japan and China (8).

West Fraser Timber Corporation

West Fraser Timber Corporation is also a Vancouver-based company that produces a variety of products including lumber, wood chips, panels, and pulp and paper products. Similar to TimberWest, the company produces spruce, pine and fir species as their primary lumber products. Their annual production has reached 1.6 million cubic feet by year 2010 and the majority of their products are sold domestically in Canada (8).
Weyerhaeuser Company

Weyerhaeuser Timber Company is a United States-based company that focuses its main operations in growing and harvesting trees, home building assignments and forest product manufacturing. Similar to TimberWest, the company manages 20.5 million acres of forests each year with a separate real estate development sector within the company. With offices and operations located in 10 different countries around the world, the company also produces minerals, oil and gas as subsidiary income. Its main wood products include softwood lumber, structural panels and building materials (8).

1.4 Financial Background

In terms of financial performance, TimberWest Forest Corp sold 3.0 million m$^3$ of timber in volume, resulting a total earning (before tax and interest, refer as EBITDA, see glossary) of 21.2 million. The total log sales have reached up to $253.9$ million dollars in value and an additional 13.4 million dollars from the real estate division. The company had an outstanding bank debt of 106.5 million dollars and 3.5 millions of cash on hand at the end of the 2010 fiscal year (1). However, problematic issues such as the overwhelming amount of stapled units and convertible debenture issued in 2008 still affect the balance sheet and the income statement heavily in a financial point of view.

In terms of non-financial performance, the company has a unionized work force training system to ensure effective internal controls in decision making, human resources, information systems and inventory at appropriate levels (1).

Overall, the company remains very strong in assets and ability to invest. On May, 18, 2010, the company raised $60.0 million dollars through offering new stapled units (1). With the new capital, the company has agreed to acquire 7678 hectares of private timberlands adjacent to the Company’s existing private timberlands on southern Vancouver Island.

With the new capital instalment, the company has a definite chance to improve its financial condition of the company. In order to be more competitive in the industry, TimberWest has to prove a reliable financial performance to minimize its risk of failure and provide sufficient funding for its project. In order to assist the company with the correct business strategy and strengthen its optimal decision making power, a solid financial analysis of the company must be completed for the decision makers to understand TimberWest’s role and position in the industry as well as its position against its competitors.

2.0 Financial Analysis

2.1 Method
The study will employ various financial ratios to identify the company’s efficiency and position in the industry. The financial ratios will be built into 5 years trend and then they will be compared to its competitors’ ratios as well as the industry ratios. Along with the statistical evidence, recommendations will be made involving the company’s improvement over its current financial positions and future business strategies. The complete financial analysis will be focusing on three main areas as follows (9):

- The analysis of company health and industry ranking
  
  o The capability of the business to generate income is directly related to its financial position in the industry. It also reflects the facts that if the company is mature enough to stand alone to stay competitive against its competitors in the industry.
  
  o Study Tools: Return on Equity, Gross/Operating margin, Net profit Margin

- The analysis of financial condition and debts condition
  
  o The financial condition of the business is reflected by the ability of the company to control its debts against its assets and capital investment. If the company is heavily relying on debts to generate revenues, the relative risk of the business operation will be high in comparison to a company with a lower leverage ratio. It also affects the company’s crediting rating in terms of loan approval or account payable creditability.
  
  o Study Tools: Current ratio, Debt to Capital Ratio, Time Interest-earned ratio

- The analysis of management efficiency and growth
  
  o Long term financial ratios such as income growth and inventory turnover show the company’s ability to generate profit over time. They also reflect the company’s management efficiency and potential for long term investment. They also have an impact on stock market investors in terms of their confidence to purchase the company’s stocks against its competitors’ stocks.
  
  o Study Tools: Sales Growth, Income Growth, Degree of Leverage Ratio, Operation cash flow, Assets/Inventory Turnover Ratio.

2.2 Study Tools

In order to analysis each of the three focusing areas of the company, various financial ratios approved by the Generally Accepted Accounting Principles (GAAP) will be calculated from the financial statements of the company in the past five years. These financial ratios are defined as the following:
Gross Margin: As a measure of efficiency in turning raw material into finished product, the Gross Margin of a company is the differences in sales and production cost divided by net sales, defined as follow (8):

\[
\frac{\text{Net Sales} - \text{COGS}}{\text{Net Sales}} \quad \text{(Equation #1)}
\]

Operation Margin: As a measure of financial risk, the Operation Margin reflects the company’s ability to pay for its fixed cost, defined as follow (8):

\[
\frac{\text{Operating Income}}{\text{Net Sales}} \quad \text{(Equation #2)}
\]

Net Profit Margin: As a measure of efficiency in company’s pricing strategies and cost control, the Net Profit Margin is designed to reflect the margin of safety in a company, defined as follow (8):

\[
\frac{\text{Net Profit}}{\text{Net Sales}} \quad \text{(Equation #3)}
\]

Current Ratio: Current Ratio reflects the ability of a firm to pay its short-term debts in a 12 months period. It also represents a company’s market liquidity and its strength to meet creditor’s demands, defined as follow (8):

\[
\frac{\text{Current Assets}}{\text{Current Liabilities}} \quad \text{(Equation #4)}
\]

Return on Equity (ROE): The ROE shows a company’s efficiency of transferring available investment funds into profit growth. It often represents the financial positions of different companies in the same industry, defined as follow (8):

\[
\frac{\text{Net Income}}{\text{Average Shareholders Equity}} \quad \text{(Equation #5)}
\]

Debt to Capital Ratio (D/E): The D/E ratio represents the amount of debts and liabilities used to finance the company’s assets. A high D/E ratio purposes that high risk leveraging activities are presented in the company, defined as follow (8):

\[
\frac{\text{Long-term Debt} + \text{Value of Leases}}{\text{Average Shareholders Equity}} \quad \text{(Equation #6)}
\]

Time Interest-Earned Ratio: The Time Interest-Earned Ratio is a rating for the sustainability of a company’s leveraging activities in a long term, defined as follow (8):

\[
\frac{\text{Net Income}}{\text{Annual Interest Expense}} \quad \text{(Equation #7)}
\]
Sales Growth/Income Growth/Degree of Operating Leverage: The Sales and Income Growth is a growth indicator reflecting the percentage changes in income and sales between the current year and the previous year. The Degree of Operation Leverage measures a company’s long term operation risks. It is calculated by income growth over sales growth, defined as follow (8):

\[
\frac{\text{Percent Change in Net Operating Income}}{\text{Percent Change in Sales}} \quad (\text{Equation #8})
\]

Operation Cash Flow Ratio: The Operation Cash Flow Ratio indicates the amount of cash generated from the revenue of a company, excluding any long-term investment or security investment. It is a measure of a company’s ability to support its internal or external investments, defined as follow (8):

\[
\frac{\text{Operation Cash Flow}}{\text{Total Debts}} \quad (\text{Equation #9})
\]

Assets/Inventory Turnover: The turnover ratios indicate a company’s ability to create revenue based on its assets and inventories. They measures how fast revenues are generated based on investment amounts, defined as follow (8):

\[
\text{Asset Turnover} = \frac{\text{Sales}}{\text{Average Total Assets}}, \quad \text{Inventory Turnover} = \frac{\text{Average Cost of Goods Sold}}{\text{Average Inventory}} \quad (\text{Equation #10 & 11})
\]

All financial ratios will be calculated based on the public financial reports available on the TimberWest Forest Corp. website. Information such as the consolidated income statement, balance sheet and income statement dated from 2005 – 2010 will be combined together in appendix 1, 2 and 3 for analytical purpose and calculation. All information and calculation will be processed by Microsoft excel. A part of the calculated financial ratios will be set up graphically to analyze future trends of the company while the other part of the calculated financial ratios will be compared with the wood and forest industry ratios provided by RBC Direct Investing Inc. in appendix. The result information will also be compared with its competitors’ financial ratios provided by Microsoft finance statistic database. A conclusion will be determined after all ratios have been analyzed under the three main focused areas.

### 3.0 Results and Calculations

Financial ratios and graphical analysis of TimberWest Forest Corp. in this report are produced by customized formulas in Microsoft Excel. All data were entered into an excel worksheet and then converted to useful financial ratios and graphs. The excel copy of the statistical information and calculations will also be available in a compact disc that is submitted with this report. The
original data is also available online in TimberWest Forest Corp. annual reports from 2006 – 2010 in the company’s website under the investor section. The following table is the summary of all the calculations done based on the statistical information from all available financial statements (balance sheets, income statements, statements of cash flow) from the annual TimberWest public financial reports during 2005-2010.

Table 1. Financial Ratios of TimberWest Forest Corp, 2005 - 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial Ratios</th>
<th>Study Tool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>23.84%</td>
<td>24.84%</td>
</tr>
<tr>
<td>Operation Margin</td>
<td>19.81%</td>
<td>17.92%</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>-4.41%</td>
<td>-11.32%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>7.08%</td>
<td>-6.16%</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>0.33</td>
<td>1.60</td>
</tr>
<tr>
<td>Operation Cash Flow Ratio</td>
<td>1.17%</td>
<td>-7.90%</td>
</tr>
<tr>
<td>Asset Turnover</td>
<td>0.35</td>
<td>0.25</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>7.43</td>
<td>7.24</td>
</tr>
<tr>
<td>Debt to Capital Ratio (D/E)</td>
<td>3.6607143</td>
<td>4.638743</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>4.34%</td>
<td>-33.49%</td>
</tr>
<tr>
<td>Operating Income Growth</td>
<td>35.09%</td>
<td>-39.81%</td>
</tr>
<tr>
<td>Degree of Operating Leverage</td>
<td>30.81%</td>
<td>-38.75%</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>N/A</td>
<td>1.979991</td>
</tr>
<tr>
<td>Operating Income Growth</td>
<td>0.1741344</td>
<td>0.13</td>
</tr>
</tbody>
</table>

The calculations are done with data in an excel worksheet with formulas according to the study tools in section 3.3. A simple calculation from the excel data is computed in the following:

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005 31 Dec</td>
<td>2006 31 Dec</td>
</tr>
<tr>
<td>2</td>
<td>Net Sales</td>
<td>458.2</td>
</tr>
<tr>
<td>3</td>
<td>Cost of Good Sold, Total</td>
<td>365.1</td>
</tr>
</tbody>
</table>
As defined in section 3.3, the gross margin in equation #1 is:

\[
\frac{\text{Net Sales} - \text{COGS}}{\text{Net Sales}}
\]

In order to calculate the gross margin ratio of 2005 from the above excel sheet, the following formula is entered into a cell to get the desired result:

\[\frac{(B2-B3)}{B2}\]

Similar to the 2005 ratio, the 2006 gross margin ratio is also represented by the following formula in a cell:

\[\frac{(C2-C3)}{C2}\]

For the details of all calculations and data, please see appendix for all the financial statements, financial ratios, graphs, tables and calculations in the electronic copy of the report.

4.0 Discussion and Analysis

Discussions will be made based on the information and findings in the three main focused areas of the company:

- The analysis of company health and industry ranking
- The analysis of financial position and dept condition
- The analysis of management efficiency and growth

4.1 Industry Position and Company Health Analysis (Financial Ratios vs. Industry and Competitors)

The analysis of company health and industry ranking

It is very important to understand the health of the company and its financial position in the industry before any major investment is made. Financial figures such as the gross margin, operation margin and net profit margin in our first focusing area will be useful in helping us understand the health of the company in its day to day operation. The following table represents gross margins, operation margins and net profit margins of TimberWest Forest Corp from 2005-2010.

|------------------|----------|-------|----------|-------|----------|-------|----------|-------|----------|-------|----------|-------|-------------------------------|

Table 2. Profit Margin Ratios of TimberWest Forest Corp.
<table>
<thead>
<tr>
<th>Gross Margin</th>
<th>20.32%</th>
<th>23.84%</th>
<th>24.84%</th>
<th>1.22%</th>
<th>2.00%</th>
<th>11.94%</th>
<th>12.77%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation Margin</td>
<td>15.30%</td>
<td>19.81%</td>
<td>17.92%</td>
<td>272.56%</td>
<td>-8.67%</td>
<td>6.34%</td>
<td>10.14%</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>-8.03%</td>
<td>-4.41%</td>
<td>-11.32%</td>
<td>216.46%</td>
<td>-78.67%</td>
<td>-24.25%</td>
<td>19.56%</td>
</tr>
</tbody>
</table>

Table 3. Wood Product and Forest Industry Profit Margin Ratio 2010

<table>
<thead>
<tr>
<th></th>
<th>Year 2010</th>
<th>Year 2006-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>31.2%</td>
<td>27%</td>
</tr>
<tr>
<td>Gross Margin 5 Year Average</td>
<td>12.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Operation Margin 5 Year Average</td>
<td>10.2%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Compared to the industry, the company is under performing in terms of controlling its assets and expenses to generate the desired income. The gross margin of 11.94% is well below the industry gross margin of 31.2%. The operation margin of 6.34% is also well below the industry operation margin of 12.4%. Based on the income statement of 2009 and 2010, evidence shows that TimberWest has controlled its general operating expenses at a consistent level. The company had a huge increase in revenue from 150 million dollars to 268 million dollars mainly from the boosting markets in Asian countries. However, the cost of goods sold for the year also climbed from $147 million dollars to 236 million dollars. This suggests that TimberWest Corp. is potentially under performing in its pricing strategy or operation cost control. An issue of over-priced harvesting in public timberlands and crown lands in the 2010 annual report may also be the cause of the cost control problem.

The net profit margin of TimberWest is -24.25% in the year of 2010 against the industry ratio of 10.2%. The reason for this irregular figure against the market is because TimberWest had issued $150 millions of stapled units to shareholders and promised an annual return of 2-12% of the face value of the Series A notes. The deferred interests to the shareholders are due in mid 2010, thus TimberWest paid out a large amount of Cash and result in a loss in net profit margin.

In the long run, the company has been staying in the lower end of the industry with a weak gross margin and a strong operation margin. A graph below will explain its
performance against the industry in a 5 year ratio, excluding the data from 2008 because a large amount of unusual income was funded by additional stapled units.

The gross margin of TimberWest against the Forest Industry is as follow:

Figure 1. Profit Margin, TimberWest vs. Industry

![Profit Margins: TimberWest vs. Industry](image)

Overall, the company is among the lower ranked corporations in the industry table. The company has good and strong assets, but fails to use the assets as a way to generate the profits at the average industry level. The company is also very low on cash flow compared to its assets. Since the company has been generating a very low profit over the last 5 years, there is a deficiency of cash flow for investing in new programs or new product lines. The new capital of 60 million dollars will be perfect for the company to consider a major revision in its operation to turn losses into profits. Similar graphs are shown where the company ratios are compared with its competitors’.

Figure 2. 2010 Forest Industry Profit Ratio Comparison
The comparison also shows that TimberWest is currently sitting at the bottom of all 3 profit ratios of the 6 top companies in the industry. However, a different result is discovered when the five year average is being compared in the following figure.

Figure 3. 5 Years Profit Ratios Average, TimberWest vs. Competitors

TimberWest is ranked as the top company with the 5 year average ratios under operation marine and net profit margin. However, the 5 year average gross margin is still the lowest of all the companies. This reflects that TimberWest needs to revise its sales or pricing strategies in
order to be the top firm in the forestry market. Another important finding from this analysis is that although TimberWest leads the industry in operation margin and net profit margin for the past 5 years, TimberWest is still the lowest ranking firm in terms of profit ratios in 2010. The next part of the report will explain how this situation may be a consequence of poor debts control.

4.2 Financial Position and Debts Control Analysis (Financial Ratios vs. Competitors)

In this analysis, the current ratio, debt to capital ratio, and time interested-earn ratio will be employed to analyze the company’s financial position and its ability to control its debts. From the last analysis, the results indicate that TimberWest is suffering a loss in 2010’s net profit margin while the operation margin is positive. Since profit margin is proportional to operation income minus expenses, there must be a factor in the expenses that turns the company’s profits into losses. The following graph will analyze the overall financial power and debt of the company.

Figure 4. Financial Position and Debt Control Ratios, TimberWest

![Financial Position and Debt Control Ratios, TimberWest](image)

Based on the graph, it is evident that both the current ratio and debt to capital ratio over the past 5 years are well below the industry averages by a significant amount. A poor current ratio may cause a company to have a higher financial risk due to the low liquidity of the company and its lack of cash to pay off short term debt. The debt to capital ratio of the company is also drastically higher than the industry average. It reflects that the
company is heavily relying on financial products and loans to sustain its assets. These findings are critically related to the poor financial position the report has discovered in the first part of the analysis because there is evidence indicating that the overwhelming use of financial products are turning the company’s profits into losses. More evidence will be shown in the following tables with degree of leverage and time interest-earned ratios.

Table 4. Time Interest-earned Ratio of TimberWest, 2005 - 2010

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Ratios</td>
<td>0.048387</td>
<td>0.17413</td>
<td>0.13</td>
<td>-</td>
<td>1.22222</td>
<td>1.2</td>
<td>0.01560</td>
</tr>
<tr>
<td>Time Interest-earned Ratio</td>
<td>1</td>
<td>4</td>
<td>2.64835</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A negative time interest-earned ratio suggests that the company spends more than its annual profit to cover its annual interest cost. The time interest-earned ratio of TimberWest indicates that the company is paying almost 99% of its income every year for its interest expense. Considering that there are also other expenses in the company, this is surely the main reason why TimberWest is suffering from a net loss on its income statement while the company is generating one of the best operation income figures in the industry. In the next analysis of the report, management efficiency and growth factors will be discussed to conclude the company’s overall potential against its competitors.

4.3 The analysis of management efficiency and growth

In this analysis, sales growth, profit growth, degree of operation leverage, operation cash flow ratio and asset/inventory turnover are calculated to evaluate the company’s management efficiency and growth. The following graph will compare TimberWest’s sales and profit growth in the past 5 years with other companies in the industry:

Figure 5. Income Growth and Sales Growth. TimberWest vs. Industry
The operation income growth has been experiencing a steady decrease in percentage while a huge 600% growth was presented in 2008. This is a result of a massive sale of the company’s convertible debentures in 2008. In terms of operation, the company is experiencing a positive sales growth since the housing crisis in 2008. The company experienced a boost in income growth and a positive sales growth in 2010, resulting in a high 3.86 degree of operating leverage. Closely associated with the risk that comes with the forestry industry, a high degree of operating leverage suggests that a business is operating with a high fixed cost and a fluctuating income. These two elements bind the company to a problem of income uncertainty.

The following graph will show the sales and operation efficiency between TimberWest and its major competitors:
TimberWest earned a high ranking position in terms of sales growth and operating income growth among its major competitors in 2010. Though their ratios look respectable in 2010, most of the companies listed are bound to the same high degree of operating leverage as TimberWest is; making their income uncertainty remain high as well.

In terms of management efficiency, the measure is guided using the following table.

**Table 5. Management efficiency Ratios, TimberWest Forest Corp, 2005-2010**

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Operation Cash Flow Ratio</td>
<td>-4.25%</td>
<td>1.17%</td>
<td>-7.90%</td>
<td>-16.51%</td>
<td>-6.25%</td>
<td>-2.24%</td>
<td>-6.35%</td>
</tr>
<tr>
<td>Asset Turnover</td>
<td>0.32</td>
<td>0.35</td>
<td>0.25</td>
<td>0.13</td>
<td>0.12</td>
<td>0.21</td>
<td>0.21</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>7.57</td>
<td>7.43</td>
<td>7.24</td>
<td>5.59</td>
<td>5.44</td>
<td>6.38</td>
<td>6.42</td>
</tr>
</tbody>
</table>

The operating cash flow remains low throughout the year, suggesting that the management needs to work harder in order to obtain cash to provide for the cost of the company. In some cases, the company was forced to pay its stapled units as dividends to
its shareholders in the past 5 years. In terms of Assets Turnover, the management has done a respectable job in turning most of its assets into investments. There is a trend of decreasing asset turnover value in year 2008 and 2009 due to the wearing out asset but the issue was addressed quickly. The management has also brought the inventory turnover back up to 6.38 in 2010 to maximize its working capital throughout the year.

Figure 7. Asset Turnover and Inventory Turnover, TimberWest Forest Corp. vs Competitors, 2010

Comparing management efficiency, TimberWest is the lowest in assets turnover within the six companies. The management of TimberWest has not maximized the use of its assets to generate revenue at the industry average. In terms of the company’s inventory turnover ratio, the management has kept the ratio at the industry average to prevent shortage of stocks or stockpile.

6.0 Conclusion and Recommendation

In conclusion, TimberWest Forest Corp. is not a very competitive company within the forest industry. It leads the business with the top operation income but there are significant problems throughout the company spreading its debt control and management efficiency. The company is operating at gross and profit margin that are below the industry average. The assets control and growth control are not at its optimal rate; thus there are long-term business risks such as income uncertainty in the future.

In terms of debt control, the company is paying almost 99% of its return on average in interest expenses. This is the main reason why the company is suffering from huge loss even though the operating income is high. The debt to capital ratio and the current ratio are significantly lower than the industry average; therefore the company will have problems trying to meet their short-term liabilities in the near future.
TimberWest’s management efficiency is reasonable with satisfactory inventory turnover and operating income. However, the low assets turnover values and the low operation cash flows through the past five years have limited TimberWest’s potential to create a profitable business.

TimberWest definitely has the potential to be the top forestry company in Canada. The company has strong assets and operation management to support the fundamental needs of the company. However, the company needs a good financial plan to improve its interest expenses and liabilities. With the additional 60 million dollars raised in 2008, the corporate and administration department of the company has the option to reduce its liability to a suitable level to balance its interest expense. The department also needs to be wary of the fully due interests and dividends of the stapled units, as well as the convertible debenture that was deferred in 2009. In the real estate department, the company has the option of selling its developing land and purchasing more timberland as their potential inventory with a small down payment. The sales department may focus on its current gain in the Asian market and venture further into different Asian countries. The logging department may look into reducing the variable cost such as transportation of the logs and the replantation fee on the crown timberlands.
Reference


