



MADISON'S TIMBER PREVIEW

PO Box 2486, Vancouver, BC V6B 3W7 ✦ Tel: 604-984-6838 ✦ Email: madrep@shawcable.com ✦ Web: www.madisonsreport.com

October 09, 2009

As economies globally roll through 4Q 2009, questions abound whether the recession is over. In some countries, Canada for one, indications are that it could be. An article Thursday in *The Globe and Mail* declared that the Canadian real estate market has not only recovered from the recession, but has rebounded to pre-crisis levels. "Not even the 50-per-cent S&P/TSX rally since March can match such a robust recovery," said economist Pascal Gauthier. But what of the US? *Madison's* is of the firm opinion that Canada's heavy reliance on the US as a forest products customer lead to this country's recent economic slide. Had Canada nurtured a wider range of customers, the US economic crisis would not have had such a pervasive effect on this country. With a similar view, the Canadian federal government has recently put a focus on garnering new trade partners, in South American especially, and in strengthening trade relations with Europe. However, the US will always be a very important customer for Canadian products. The latest financial news out of major US companies which serve the US home building industry are startling in their level of improvement.

Builders FirstSource, Inc. is a supplier and manufacturer of structural building products for residential new construction in the US. The company, based in Dallas, TX, serves a diversified customer base ranging from production homebuilders to small custom homebuilders encompassing 33 markets in 11 states. Since January 2, 2009 Builders FirstSource shares have gone up 218 per cent, from \$1.53 to \$4.48. These are glowing results when compared to the S&P index, which has risen only 15 per cent over the same time period. Comparing historically, Builders FirstSource has a long way to go from its all-time highest share price, of \$25.29 in February 3, 2006. The company is currently extricating itself from some messy legal wrangling over a capital restructuring expenditure that was announced on September 1, 2009. Between August 7 and August 26, 2009 Builders FirstSource shares reached \$8.25 twice, which is a 439 per cent increase over January 2, 2009. Company share prices have been rising again this week as the company solves these legal issues with its bondholders. On October 23, the Builders FirstSource will release 3Q 2009 financial results. Share prices are sure to respond accordingly.

On the home financing front is Toll Brothers, Inc, which is engaged in designing and arranging finance for single-family homes in luxury residential communities, as well as building luxury homes. Serving customers in 21 states, the company delivered 4,831 homes from 370 communities during fiscal year 2008. After showing remarkably steady share prices from mid-1986 into 2000, Toll Brothers shares started a steady climb which peaked mightily at \$57 on July 22, 2005. The next day company shares started an equally mighty slide.

In 2009, company shares have been on a wild ride, bottoming out at \$4.26 on March 6. Despite the sharp peaks and valleys, the company is holding its own rather well considering the nature of its business and the market it serves. Since January 2, 2009 company shares are down 11.5 per cent, compared to a 15 per cent gain in the S&P index. In fact company shares were doing so well in mid-September that the founders of Toll Brothers seemed to be suggesting their stock has gotten ahead of itself by selling thousands of shares. Robert Toll, chief executive of Toll Brothers, sold 198,000 shares on September 17 for \$4.4 million, or \$22.29 a share. Also on September 17, Bruce Toll, a Toll Brothers director, sold about 152,000 shares for \$3.3 million, or \$21.53 a share. Company shares promptly embarked on a two-week slide, losing \$3.52, going from \$22.20 to \$18.68, but have since started to climb again.

Lon Juricic, president of *StreetInsider.com*, said Robert Toll's sales suggest he may think the stock has gone too far, too fast. "Smart investors who bought when everything was doom and gloom should take note of this," Juricic added.

That company shares were "overweight", according to Michael Rehaut, an analyst with J.P. Morgan Securities, despite Toll Brothers reporting on August 27 a loss of \$472.3 million in 3Q 2009, speaks to analyst expectations for future share price increases. Many point to a possible extension of the US\$8,000 first-time home buyer credit as helping keep Toll Brothers and other building-related share prices up.

Clearly not a company to take a seeming difficulty lying down, on September 25, Toll Brothers offered a 9-day national sales event that gave new home buyers an opportunity to capitalize on the buyer's market and build a new home. "We are offering below-market rates and a 345-day lock," says Andy Stern, Senior Vice President of Toll Brothers' Illinois Division. "This is an incredible opportunity for home buyers to take advantage of low prices and lock-in an incredible rate," Stern says.

The shining star, however, of the US home building industry is Lumber Liquidators Inc, which has exploded all over analyst notes and reports in the past few weeks. Lumber Liquidators is a specialty retailer of hardwood flooring in the US, offering a selection of hardwood flooring products under multiple brands. Based in Toano, VA, the company has 150 stores in 44 states. Since January 2, 2009 company shares have enjoyed a 105 per cent increase, from \$10.60 to \$21.50.

On September 25, Investors.com broke down the details: "After moving out of its bear market correction, Lumber Liquidators made a big move up in heavy volume (Point 1); After rallying to a new high last month (Point 2), the stock has been in a holding pattern; It's getting support right at its 10-week moving average (Point 3), a good sign that professional investors are buying at that level rather than letting the price sink lower.



Lumber Liquidators has the best Composite Rating within the 18-member Retail/Wholesale-Building Products industry group."

On September 28, Motley Fool posted a note about the company, "Lumber Liquidators: Growing its hardwood-flooring empire at a time when rivals are retreating? Zig when everybody zags, baby."

On October 6, Lumber Liquidators Chair and founder Thomas Sullivan sold 25,000 shares at an average price of \$21.5 a share.

On October 7, Schauffer's Investment Research offered "insight into situations where you might see concentrated buying demand. The purpose of this post is to highlight heavily-shorted stocks that could be in the midst of a potential short covering rally."

Lumber Liquidators was one of the 25 companies listed as showing great investor interest, as was Builders FirstSource.

Keta Kosman
Publisher
Madison's Lumber Reporter
Madison's Timber Preview
www.madisonsreport.com
604 984-6838