

Masonite International (DOOR)

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Neutral: An Uncertain Future

We look to hold a majority of our position in Masonite International while selling off a small portion of our holdings at the current share price of \$119. We like Masonite International's dominance in the wood door manufacturing industry. In upcoming years, we are still concerned with changes in mortgage rates and related tax changes. These pose a large threat to the overall profitability of Masonite International.

Source: Bloomberg

Market Data	
Last Price	\$118.85
Shares O/S (mm)	24.44
52 wk High-Low	62.98-132.22
Market Cap. (mm)	\$2,911.9
Enterprise Value (mm)	\$3,556.6

Source: Bloomberg

Financial Summary			
Data	FY19A	FY20E	FY21E
Revenue	2,176.7	2,257.1	2,587.9
Adj. EBITDA	314.1	383.2	440.3
Adj. EPS	\$3.66	\$6.35	\$8.49
Consensus Revenue	2,179	741.34	755.88
Consensus Adj. EBITDA	281	360.8	440.3
Consensus Adj. EPS	\$3.55	\$6.05	\$8.49

Source: Bloomberg

Key Investment Highlights

Fourth quarter net sales increased 16% from the previous year.

The increase in net sales resulted from an increase in unit price, base volume, and sale of components. The average unit price (AUP) increased 9%. Base volume increased 6% and the sale of components and other products increased by 1%.

North American Residential net sales saw a large increase of 26% from the previous year. Conversely, Architectural net sales continued to decline.

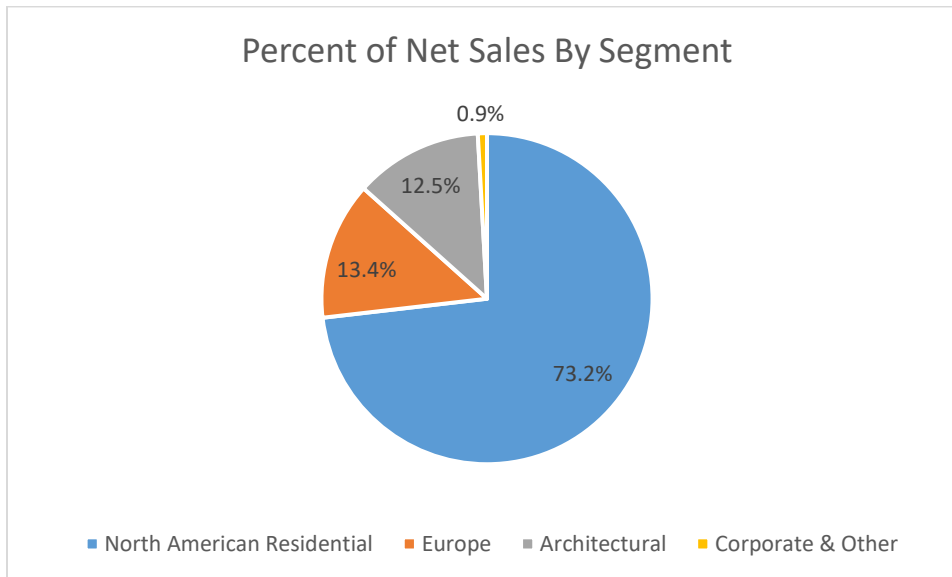
For the 4th quarter of 2020, North American Residential net sales were \$453 million. AUP for this segment increased 12%. Sales of components and other products increased by 1%. Architectural net sales were only \$77 million dollars which is a 10% decrease compared to the fourth quarter of 2019.

Selling, General, and administration costs increased due to several factors.

Higher personnel costs drove up selling, general, and admiration (SG&A) costs. SG&A costs increased by 23% compared to the fourth quarter of 2019. Personnel costs included a settlement of a U.S. class action litigation.

Company Overview

Masonite International Corporation is a leading global designer, manufacturer, and marketer of interior and exterior doors. Masonite International is headquartered in Florida and is primarily located in the United States of America with properties distributed throughout 27 states. There are also properties in 4 Canadian provinces as well as several manufacturing facilities in Mexico and Chile. Their segments have performed as seen below as the company has had major revenue growth.



Industry Overview

Masonite International is a key player in the United States wood door and window industry. This industry primarily manufactures wooden windows and interior as well as exterior doors. The customers for this industry include home builders, carpenters, and home improvement stores located in the United States of America. Over the next five years, the residential construction market is expected to slow. This could pose a threat to future revenue growth for this industry.

Company Competitors

Major company competitors in the North American residential exterior door industry include Jeld-Wen Manufacturing Company, Plastpro, Therma-Tru, Feather River, and Steves and Sons Inc. In the North American non-residential door construction industry, the major competitors are VT Industries and small regional manufacturers.

Segment Analysis

Historical revenue is below. The 2020 fourth quarter revenue by sector for Masonite International is as follows: North American Residential 73.2% (\$452.6), Europe 13.5% (\$83.2), Architectural 12.5% (\$77.3), Corporate & Other 0.9% (\$5.5).

Recent Earnings Commentary

Masonite International beat analyst revenue estimates this past quarter. Street estimates placed fourth quarter EPS estimates at \$1.17 and Masonite beat expectations by \$0.09. Most of this past quarters revenue growth came from the North American Residential sector which saw a 26.2% increase in revenue from the previous year. Architectural sales decreased 10.1% from the previous year, but this sector only makes up 12.5% of Masonite's total revenue.

Sell-Side Viewpoint

Masonite International's profitability is directly tied to market and economic conditions which is in line with the sell side thesis. In the near future, there is a real possibility that the Federal Reserve will raise interest rates. This could adversely affect the availability of consumer financing. If lending standards tighten, many consumers will put off home purchases and renovations. This presents a real problem that could lead to serious revenue losses.

Positive & Negative Catalysts

The next positive catalyst for the stock is earnings. First quarter earnings will be reported on 05/04/21. This stock may continue to perform extremely well if Masonite is able to beat earnings expectations yet again. Another catalyst for this stock is the virtual investor day scheduled for 04/01/21. Management will give presentations on the company's strategy moving forward.

Risks associated with the stock include changes in mortgage rates over the next quarter. If economic conditions change dramatically in the next quarter causing the mortgage rates to change, the demand for Masonite's products will drop significantly. New tax policy that involves purchasing and renovating homes may also adversely affect Masonite's profitability.

What to Watch – Next Earnings

Current street estimates expect the revenue of Masonite International to reach \$606 million dollars in this upcoming quarter. We believe strong demand growth in the North American Residential sector will make this estimate very attainable. Average stock price has seen significant movement this past quarter. This can be seen when looking at the 52-week high-low prices for this stock. Due to this volatility, it is hard to estimate how much the stock might move after the next earnings presentation. If expectations are beat once again, the stock price may see an increase of (\$1.00-\$10.00) in the days following earnings.

Final Take

Recommendation: Hold on to Masonite International shares but sell a portion of our holdings at the current price. I believe this will add the most value to the portfolio. Financing for buying homes and home renovations is quite available at the moment ensuring demand for Masonite International's products will continue to grow. The COVID-19 vaccine rollout will also lead to growing demand in this sector. We still believe Masonite International is overvalued, but we do not recommend selling our entire position at this price due to the company's recent earnings performance and positive outlook.