



# MADISON'S TIMBER PREVIEW

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

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Fourth quarter 2012 financial reports for North American timber companies are pouring in, and as *Madison's* has been saying for several months, most of the results are quite good. Not only that, but companies are stating improved expectations for the coming few years. All of the sudden, in the past week or so, analysts and advisors of all kinds are releasing their assessment of the financial state of forest products and timber owning companies for the near future.

Tuesday Acadian Timber, one of Canada's few sizable timberland owners, generated 4Q 2012 net sales of \$18.4 million on sales volume of 327 thousand cubic metres, which represents a \$3.3 million, or 22 per cent, increase in net sales compared to the same period in 2011. For the year ended December 31, 2012, Acadian generated net sales of \$68.8 million on sales volume of 1,304 thousand cubic metres, as compared to net sales of \$66.2 million on sales volume of 1,293 thousand cubic metres in 2011.

"Acadian benefitted from strong demand and pricing for its hardwood pulpwood, and average selling prices for spruce fir sawlogs remained robust in Acadian's Maine operations" said Reid Carter, CEO. "While there may be volatility, we expect 2013 to be an exciting year in the wood products industry."

On Thursday Weyerhaeuser declared a quarterly dividend. Stockholders of record on Friday, March 1, will be given a dividend of US\$0.17 per share on Friday, March 15th. This represents a US\$0.68 dividend on an annualized basis and a yield of 2.23 per cent. The company reported US\$0.26 earnings-per-share for the quarter. During the same quarter in the prior year, the company posted US\$0.14 earnings per share. Weyerhaeuser had revenue of US\$2 billion for the quarter and quarterly revenue was up 23.8 per cent on a year-over-year basis.

On average, analysts predict that Weyerhaeuser will post US\$1.06 earnings-per-share for the current fiscal year.

The company's shares tumbled downward nearly 5 per cent over the two trading days following its quarterly release on January 25.

Investors may have taken a dislike to the fact that more than US\$65 million worth of Weyerhaeuser's Q4 earnings were due to "non-strategic" land sales. They may have deemed the quarter's sales unusually high. However, the company owns more than 6 million acres in the US and manages another 14 million acres in Canada, much of which had been left to grow during the downturn.

In any case, the company expects that significantly higher current-quarter earnings in its wood products business. Weyerhaeuser's largest operating segment sells lumber and structural panels to residential and light commercial markets. That segment's net revenue for the latest quarter showed growth and was a respectable US\$832 million.

Another timber company reporting recently is Plum Creek Timber. On January 28 Plum Creek released Q4 and 2012 results that showed marked improvements in both revenue and profitability. The company revealed that net income grew 30 per cent in 4Q 2012. Plum Creek earned US\$79 million in the quarter ended December 31, which is up from US\$61 million a year ago. Revenue increased 12 per cent, to US\$354 million.

For year-end 2012, the company's net income rose 5 per cent, to US\$203 million, or US\$1.25 per share, from US\$193 million, or US\$1.19 per share. Annual revenue grew 15 per cent, to US\$1.34 billion.

The company forecast profit of US\$1.25 to US\$1.50 per share for 2013.

"We sell standing trees," Idaho Department of Lands Director Tom Schultz explained.

Idaho timber prices in 2008 were about US\$380 per thousand board-feet, Schultz said. Now, they're only about US\$200.

"So our price for our commodity almost dropped in half. . . . We still haven't seen that recovery in prices yet," he said.

Reporting Thursday, Canfor Corporation said it swung to a profit in 4Q 2012 as lumber markets ended the year with one of the strongest price rallies in recent memory.

Citing an improved US housing market and strong demand from offshore markets, Canfor posted net income of \$21.6 million for quarter. That compared to a loss of \$44.1 million in the year earlier. Sales revenue improved to \$721.8 million in 4Q 2012 compared to \$576.2 million for the same time one year ago.

The Vancouver-based company said it expects the US market to continue its gradual recovery, with rising housing prices and improved job numbers supporting the housing market. But it anticipated that Canadian markets would remain flat through 2013.

North American lumber and panel prices increased consistently through 2012, due almost entirely to low production volumes and restricted inventory. As US home building numbers gain strength and exports to China remain even, wood prices will continue going up. Some players may be shocked at these price levels but they are really not that high compared to ten-year historical statistics. Already companies across the continent have announced sawmill reopenings and capacity ramp-ups.

There is essentially no likelihood of lumber prices falling before mid-June, if they even do then.

That's enough about the companies, what about the fundamentals of fibre supply and revenue?

Seventeen Southern Indiana counties will receive shares of more than US\$380,000 as part of the state's annual distribution of revenue from timber sales, according to the Associated Press January 17. Brown County will receive nearly US\$66,000 and Clark and Monroe counties each will receive more than US\$57,000.

The Indiana Division of Forestry allocates 15 per cent of all revenue from its timber sales on state-owned land to counties where harvests occur. Each county receiving funds shares half of the money with rural and volunteer fire departments that have cooperative agreements with the Indiana Department of Natural Resources.

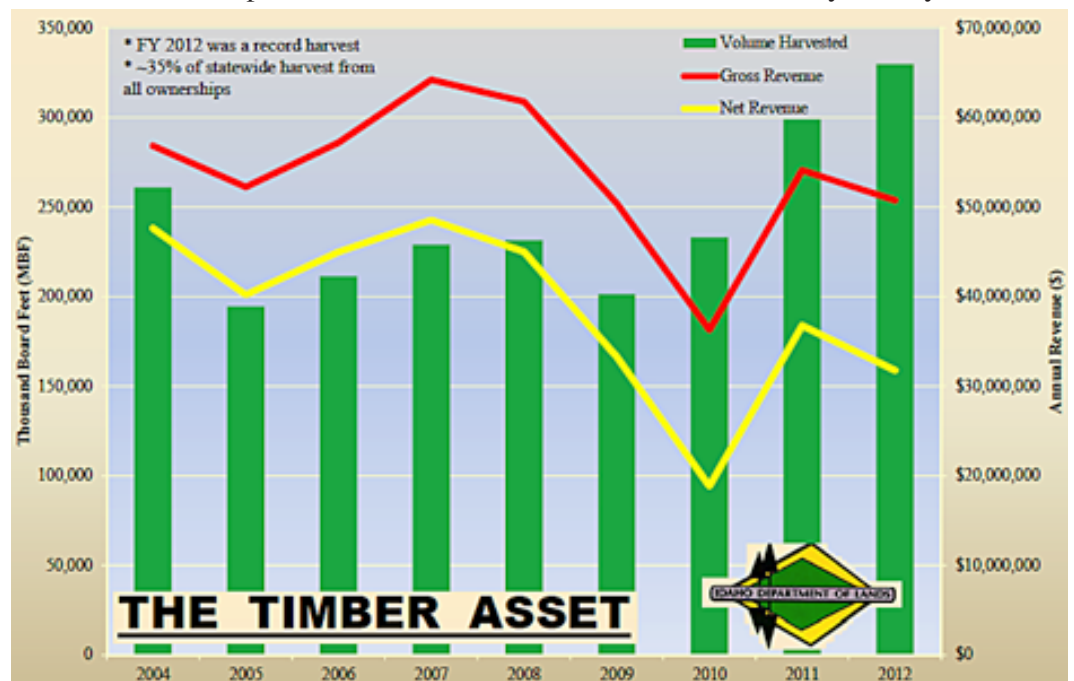
Elsewhere, Idaho Department of Lands Director Tom Schultz was forced to answer questions from the Joint Finance-Appropriations Committee January 28. The committee wanted to know why, when the state is reaping record timber harvests, its timber revenue has dropped.

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Schultz showed that timber harvests rose sharply each year from 2009 to 2012 in volume harvested, but revenues, both gross and net, fell from 2009 to 2010, came up in 2011, and dropped again in 2012. That year ended at over US\$50 million gross and US\$30 million net.



Timber revenues from state lands hit a high in 2007 of well over US\$60 million gross and just under US\$50 million net.

The time lag between the ups-and-downs of lumber prices and that of log prices, and therefore timber values, is something that operators and investors would do well to watch closely in the coming three to five years of volatile recovery.

A Canadian example, in Mission, BC, demonstrates the effects of this recovery.

A significant increase in the number of trees harvested in the Mission district boosted the municipality's bottom line, the Mayor revealed Thursday. Mission's forestry department recorded more than \$621,000 in profits for 2012. The profits come on the heels of an off-year for the department.

Mayor Ted Adlem said he admittedly was the first person to jump on forestry when it lost money. He said he wanted to thank the forestry management director Kim Allan of for the \$800,000 turnaround.

Allan said the rise in profits had been projected to come in around \$411,000, but an unexpected sale of harvested trees, and higher timber prices, came at the end of the fiscal year. The forestry department is entering the final year of its five-year forestry cycle and expects to scale back how many trees it will cut in 2013.

Which is exactly the opposite of what it needs to do! Organizations are prolonging reaction to the downturn in their planning. By 2014 sawmill operators along the Fraser River in the Mission area are going to be screaming for logs.

The same could be said across the rest of Canada and in the US, in jurisdictions that are taking their cue from the past five years, not from what is happening -- and will happen -- this year and next.

Keta Kosman  
Publisher  
Madison's Lumber Reporter  
Madison's Timber Preview  
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