



MADISON'S TIMBER PREVIEW

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As projected in the December 18, 2009 issue of *Madison's Lumber Reporter*, the lumber market seems to be making a few tentative steps toward a real rebound in early 2010. Cash price this week for WSPF 2x4 #2&Btr has firmed to US\$235 mfbm. The last time the benchmark commodity was selling for this price was in May 2008, after which it rose to US\$282 in mid-August then dropped sharply to conclude 2008 at US\$160 mfbm. In 2009, lumber inventories were depleted by the end of the year to the point that customers were willing to be backordered at the mill level, causing order files to go out three weeks or more, the longest order file seen in the year. There was concern at year-end if this uptick would continue, and indeed did seem to sag a bit between the holidays, but demand has returned with a vengeance this week.

Market pulp prices remain strong, up US\$14.50 per metric ton in Europe since the beginning of 2010, to US\$813 per metric ton, according to FOEX. While newsprint continues to struggle, both in Europe and the US, the price drop has slowed significantly. Containerboard producers have announced a price hike of US\$50-US\$70 per ton for January. Whether customers will accept this increase remains to be seen, however similar efforts through the second half of 2009 proved successful. As global trade increases and retail sales continue rising, there will only be more demand for containerboard and corrugated products.

Wrapping up the fallout from the dismal 2009 fiscal year is Smurfit Stone, which on January 14, 2010 received an additional four months from a bankruptcy judge to file a plan of reorganization, over the objection of investment funds. Aurelius Capital Management and Columbus Hill Capital Management hold 62 per cent of the \$200 million of notes issued. The group believes that Smurfit, one of the world's largest recyclers of paper and a leading paper packaging manufacturer, could be worth enough money to provide some recovery for shareholders. The company and its 20 subsidiaries, which filed for bankruptcy in January 2009, has proposed wiping out current shareholders. Smurfit has 159 manufacturing facilities in North America. It had 21,250 employees when it filed for bankruptcy.

Toronto-headquartered Sino-Forest announced January 12, 2010 that it paid US\$7.1 million cash to acquire Homix Ltd. and its China-based facilities for researching, developing and manufacturing engineered-wood products. Sino-Forest, which mainly operates in China and owns significant wood fibre plantations in that country, said the deal includes Homix's patents for recomposed wood technology using fibre from forest plantations, recycled wood and wood residue, which reduce the traditional use of large-diameter trees from natural forests. Shares of Sino-Forest were up 3 per cent at \$21.11 in afternoon trade on the TSX following the announcement. They hit a two-year high of C\$21.53 earlier in the day.

In terms of US lumber retailers overall, share prices have risen since the bottom of 2008 but are currently about 1.5 per cent behind the S&P 500 Index for the most recent quarter. Glowing 4Q 2009 results out of hardwood flooring retailer Lumber Liquidators, released January 11, 2010 indicate that turnaround has already occurred for some. The company expects an 18 per cent rise in 4Q sales, helped by increased store traffic, raising its 2009 profit view. The company expects store net sales to rise about 5.5 per cent for 4Q 2009, compared with a fall of 4.6 per cent for the same time the previous year. The Toano, VA based company said, for 4Q 2009, it expects net sales of about \$137 million. For the full year, net sales are expected to increase about 12.8 per cent to \$544 million. The company now expects 2009 earnings

per share of 95 cents to 97 cents. Lumber Liquidators, Inc. reorganized by creating a new holding company structure effective December 31, 2009 and is now called Lumber Liquidators Holdings, Inc.

On the US home builder front, share prices are faring a bit better with most companies holding their own against both the Dow Jones and the S&P 500 Index for the most recent quarter. Two companies, however, stand out as considerably stronger than both indices. Lennar Corporation out of Miami, FL, and Reston, VA-based NVR, Inc. are both showing better share price increases than the average. On January 6, 2010 Lennar reported a fiscal 4Q 2009 profit of 19 cents a share, compared with a loss of \$5.12 a share in the year-ago period, as the company booked a large tax-related benefit. The next day Lennar shares jumped more than 10 per cent, while the iShares Dow Jones US Home Construction Index Fund, an exchange-traded fund tracking the builder sector, rose about 5 per cent in afternoon trading. The builder reported a 3 per cent increase in orders for the quarter ended November 30. The cancellation rate fell to 20 per cent from 32 per cent. NVR Inc. is one of the largest stocks in the home building industry in terms of market capitalization, and over the past month has returned 11 per cent in price. Beazer Homes USA Inc. was another standout in the builder sector. Beazer priced a public offering on January 6 of 19.5 million common shares at \$4.60. The builder's shares closed that day at US\$4.77 after a 12 per cent decline for the session. Beazer had initially proposed to offer 18 million shares.

These improvements over 2009, especially from its first half, explain the recent uptick in lumber demand and suggest that it will continue.

North of the border some economic indicators are positive while others continue to struggle. Canadian housing starts rose 6 per cent in December, their third consecutive monthly gain, beating forecasts and signaling that the housing sector continues to lead the country's economic recovery. However, the TSX sagged more than 1 per cent on January 12 as resource prices came under pressure on news that China's central bank was tightening monetary policy at a faster than expected pace. China's surprise increase in commercial banks' required reserves pushed gold to a session low, and knocked down commodity currencies, including the Canadian dollar, against the greenback. Also this week, Canada's trade balance unexpectedly slipped back into deficit in November as strong imports, led by vehicles from the US, outweighed export gains due to rising oil prices. The trade deficit totaled \$344 million as exports grew 1 per cent from the previous month to \$31.58 billion and imports jumped 4 per cent to \$31.93 billion, Statistics Canada said on Tuesday.

Elsewhere, Chile industrial conglomerate Copec, one of the world's biggest producers of cellulose, plans to invest US\$700 million dollars in 2010, similar to 2009 levels, the company announced Thursday. Last year, subsidiary Celulosa Arauco, Copec's forestry arm, closed a deal worth \$344 million with Finnish papermaker Stora Enso to buy assets from the Spanish paper, pulp and energy company Ence in Uruguay. Copec acquired wood producer Tafisa Brasil for \$227 million as well. Copec also produces wood planks and chipboards and has businesses in the fuel, fishing and financial sectors, among others.

US housing starts for December will be available next week. However the North American forest products industry would do well to continue on the path forged in 2009 of opening new markets in emerging economies and of specializing into secondary remanufactured and value-added products. Only in this way can producers avoid the danger of relying so heavily on one specific customer base.

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