



MADISON'S TIMBER PREVIEW

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This has been a big week for financial statement releases with a number of North American solid wood companies announcing 4Q and year end 2009 results. Interfor, Universal, Louisiana Pacific and Canfor have all released statements. While the glowing sales volumes and rising lumber prices of January and February 2010 could not be captured in these reports, the effect of the surge in sales for the last six weeks of 2009 are plain.

Universal Forest Products CEO Michael Glenn said, "Although we expect 2010 to be challenging, we've laid the groundwork to achieve new and sustainable growth in the future, and we're already seeing results," in that company's 4Q and year end statements. For the year, Universal had net earnings of \$24.3 million on net sales of \$1.7 billion, compared to annual net earnings of \$4.3 million on net sales of \$2.2 billion for 2008. For the 4Q 2009, the company posted a net loss of \$663,000 on net sales of \$338.6 million. That compares to a 4Q 2008 loss of \$793,000 on net sales of \$423.7 million. A contributing factor to the company's 25 per cent decline in annual net sales in 2009 was the 12 per cent drop in the average composite lumber price from 2008.

Canfor's President and Chief Executive Officer Jim Shepard said, "Despite improved pulp markets and further progress in cost reduction efforts, the depressed US housing sector continued to weigh heavily on the financial performance of our core lumber business," in Canfor's 4Q and year end 2009 statement. Canfor Wednesday reported a net loss of \$17.0 million for the 4Q 2009, compared to a net loss of \$229.8 million for 4Q 2008. For the year ended December 31, 2009, the company's net loss was \$70.5 million, compared to a net loss of \$345.2 million reported for 2008. The net loss for 4Q 2009 included several items affecting comparability with prior periods, which had an overall positive impact on net income of \$1.8 million. For the 2009 year, items affecting comparability improved results by \$75.7 million.

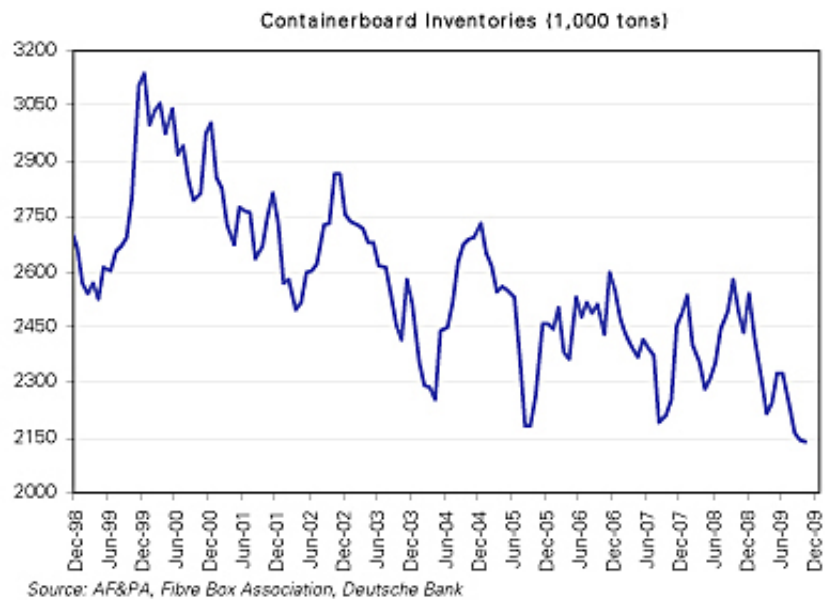
Also on Wednesday, building products maker Louisiana-Pacific announced it had narrowed its 4Q 2009 net loss to \$49.1 million from \$340.5 million in the year-ago period. 2008's results include a \$274 million impairment of goodwill. Loss from continuing operations narrowed to \$46.8 million from \$339.6 million in 4Q 2008. Louisiana-Pacific's total sales rose 10 per cent to \$275.1 million from \$250.2 million, while US housing starts dropped 24 per cent from 4Q 2008 levels. CEO Rick Frost said, "The consensus view is that the housing market in 2010 will be better than last year although there is much debate about the pace and magnitude of the recovery. With current stimulus programs scheduled to end and new programs being considered to improve the job situation and access to funds, the economy is likely to remain volatile."

"Higher operating rates and sales activity were the key factors underlying the improvement in our results," said Duncan Davies, Interfor's President and Chief Executive Officer in a company statement released late Thursday. "Production at the new Adams Lake sawmill continues to ramp up nicely, and the Grand Forks mill, which resumed operations in October, made a strong contribution as well." Excluding one-time items, the company reported a 4Q 2009 net loss of \$5.4 million compared to a net loss of \$3.7 million in 4Q 2008. Lumber production totalled 245 million board feet in the quarter (or the equivalent of 62 per cent of rated capacity) compared to 118 million board feet in 4Q 2008.

An ever growing number of analysts' attention is being drawn to the solid wood sector as one that has been trading at a discount on the stock market for well over a year. On Thursday morning TradersHuddle (www.tradershuddle.com) explained, "Shares of Weyerhaeuser Company are trading very

close to calculated support at \$38.25. Current price action closing at just \$39.25 places the stock price near levels where traders will start paying attention."

Meanwhile also on Thursday morning the Market Intelligence Center (www.marketintelligencecenter.com) stated, "Weyerhaeuser stock has hit a 52-week low of \$18.67 and 52-week high of \$46.80, closing Wednesday at \$39.25. Weyerhaeuser has a current annual dividend yield of 0.51 per cent." Analysts at that service are calling Weyerhaeuser stock 'bearish'.



Further down the value chain, paper and containerboard are showing strong rallies. *Pulp & Paper Week* acknowledge the full amount of \$50-70 per ton hike on domestic containerboard prices announced in January to have been accepted by customers. Taking advantage of this higher price, Rock-Tenn announced a 10 per cent increase in box prices and 12 per cent on corrugated sheets, effective February 22. There is some concern, however, that demand from China may be weakening, according to analysts at Deutsche Bank.

Data released Friday by the *American Forest & Paper Association* reveals that preliminary printing & writing paper shipments for January showed continued improvement over January 2008. The strongest year-over-year comparison was in the smallest category, uncoated mechanical, where preliminary data suggests shipments rose 34.8 per cent compared to January 2008. Globally, printing & writing paper producers are attempting to boost prices, while US producers are attempting hikes on virtually all uncoated free sheet grades.

In a note released February 5, Deutsche Bank analysts said, "Reports suggest that pulp markets remain tight. This is the result of tight pulpwood supplies & other constraints in the US, strong Chinese demand, and an increase in demand for spot tonnage in the US. Global inventories appear lean and near historical lows. Major producers have announced \$30-40 per metric ton price hike across key softwood and hardwood grades effective February 1. Reports suggest that February price hikes in China were implemented well ahead of schedule. On the supply side, the impact of several British Columbia restarts (Harmac Pacific and Catalyst Paper - NBSK, and Tembec - high-yield pulp) remains an issue. Most of their volume is targeted to China. Last week, two North American pulp mills were sold to Chinese companies."

All sources close to producers of both solid wood and pulp agree that log supply is going to be the biggest issue for the first half of 2010. How the lack of log availability will affect the market, and how customers react, remains to be seen.

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