



MADISON'S TIMBER PREVIEW

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In the past week headlines across North America screamed about a revival of the solid wood industry. "Higher prices for pulp, lumber and oriented strand board have boosted shares of companies like Domtar Corp, up 415 per cent from a year ago, Canfor Pulp Income Fund, up 521 per cent, West Fraser Timber, up 73 per cent and Canfor Corp, up 105 per cent," said Canoe Money on April 26. "Lumber prices are at four-year high."

"The cost per 1,000 board feet of framing lumber stood at approximately \$249 in late December, according to figures from the National Association of Home Builders," said NewsPress Now out of Missouri on May 2. "Now, it stands at approximately \$367."

"Demand for lumber has shot up. Lumber orders increased 19 per cent through mid-April," Butch Bernhardt, spokesman for the Portland-based Western Wood Products Association, told Washington State's TDN.com on May 3.

Nick Arkle, of Gorman Brothers Lumber in West Kelowna, told Global TV BC May 3, "We're certainly more optimistic than we have been over the last few years. There's a number of signs that indicate we've hit the bottom and we're coming out of it."

The recent downturn for the lumber industry may be over, but what does that mean in the short term future? All of these sources agree that in 2011 and 2012 forestry will once again see glory days, which may last for a full five years or more. But what about in the meantime? Some peaks and valleys are expected yet for 2010.

Rick Sohn of The Natural Resource Report out of Oregon tried to make sense of things in a May 5 piece titled, "*Timber prices jump — will it last?*"

"We are approaching the one-year anniversary of the lows for our key statistics (lumber and log prices, US housing starts and building permits). The \$140 reported in March 2009 for lumber is the low of this depression cycle for wood products. And April 2009 prices for logs (US\$346/mfbm), housing starts (479,000 annualized seasonally adjusted) and building permits (498,000), are also lows. [. . .] One factor, exacerbated by Asian demand, is contributing to increased log prices. All around there was a shortage of winter logs in the Northwest.

Bruce Glass of the Campbell Group said in the spring issue of Timber Trends, "It's not unusual for Southern Pine prices to rise in January, but the 2010 rally has caught many traders by surprise. They point to one key to the January rally--a tight supply of logs that limited mill output. Record-setting rainfall has kept loggers out of the woods in many parts of the South, and many sawmills reduced their log decks as they limited expenditures during the brutal market of 2009. [. . .] Seasonal factors, credit, and rising log costs are key impediments to lumber and veneer producers stepping up production. But they may face another obstacle as they contemplate adding production amid the recovery in prices—attrition in the logging sector. The Great Recession has generated its share of permanent losses of logging companies and personnel. Among surviving companies, many have idled equipment and deferred maintenance."

In terms of residuals, the consumption of wood chips and pulpwood for pulp production was lower and global trade of wood chips fell 14 per cent in 2009 compared to 2008, according to the Wood Resource

Quarterly. China bucked this trend, almost tripling its imports to become the world's second largest importer of wood chips last year. Trade of wood raw-material, including logs and wood chips, is likely to increase in 2010 as the global economy slowly recovers and as a consequence, the demand for most forest products will improve, said WRQ.

As the solid wood market remains unstable it is difficult to know which indicators to pick, which analyses to accept. Two companies releasing better-than-expected 1Q 2010 results are Weyerhaeuser and Domtar. The former could hardly be considered a lumber company as it once was, becoming mostly a timberland owner, while the latter is moving out of solid wood to focus on its lucrative fine paper business.

Weyerhaeuser said on April 29 that its net loss for the 1Q lessened to US\$20 million from a loss of US\$264 million a year ago. The company posted net sales of US\$1.42 billion in the quarter, versus US\$1.28 billion a year ago. Company share prices have responded in kind, going from \$19.36 per share on March 6, 2009 to \$53.30 on April 23, 2010. Weyerhaeuser saw strength in all of its businesses, with its timberland assets outperforming them all. The company saw an 11.3 per cent increase in revenue, stronger pricing and better costs throughout the quarter.

Investment analyst Dan Fitzpatrick told The Street Wednesday that Weyerhaeuser shares have already made their move upward, and are out of fuel, after plummeting from 2008 through mid 2009. Fitzpatrick didn't like the stock and gave it a price target of only \$54 a share.

Meanwhile, Jim Cramer of the Cramer Report and Mad Money said, "Weyerhaeuser has plenty of room to run, as evidenced by the company's most recent quarter. While Weyerhaeuser reported a seven-cent-a-share loss for the quarter, that was a full 18 cents better than Wall Street was expecting."

As for Domtar, the company 1Q saw profits of \$58 million compared with a loss of \$45 million a year ago. Consolidated sales for the Montreal-based company rose 12 per cent to \$1.46 billion. Financial prospects for Domtar appear so glowing, in fact, that the company announced Wednesday it is handing back cash to shareholders and seeks new profitable projects to offset the long-term decline in demand for business and specialty papers. Domtar said it is reinstating its dividend at a quarterly rate of 25 cents US a share, with the first payment due July 15. The company said it also will buy back up to US\$150 million of common stock, subject to market conditions.

Reinstating the dividend at an annual rate of US\$1 a share and the major share buyback represented a "milestone" in the two-year recasting of Domtar into one of North America's two biggest producers of uncoated freesheet and of softwood pulp, CEO John Williams told the annual meeting. Company share prices have risen steadily over the past months to US\$71 in New York, driven by strong prices for its products and mounting free cash flow.

Raymond James analyst Daryl Swetlishoff has an "outperform" rating on Domtar shares with a price target of \$100.

The dark days of 2009 are apparently over, and while portions of the forest industry don't know when their big payouts will come, all agree that come they will.

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