



MADISON'S TIMBER PREVIEW

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

June 30, 2010

Smurfit-Stone Container Corp., North America's second-largest integrated containerboard and corrugated packaging producer and recycler with 17,000 employees, which filed for Chapter 11 on January 26, 2009, was cleared to emerge from bankruptcy June 21, 2010. Its operations include 12 paper mills and 110 container plants. (Refer to the January 30, 2009 issue of your *Madison's Timber Preview* for details on Smurfit.) The company said on June 30 it had wiped around US\$3 billion of debt from its balance sheet, and will be holding an investor conference call July 1, 2010. Nearly a billion dollars of loans were paid in cash, in part with funds from a new US\$1.2 billion term loan. Smurfit issued new stock that will begin trading on the New York Stock Exchange July 1 under the symbol "SSCC," the company stated.

With 2009 sales of US\$5.57 billion, Smurfit projects net income to rise to US\$132.3 million by 2014, from US\$8.4 million last year. The company still carries a pension shortfall of around US\$1 billion, according to court documents.

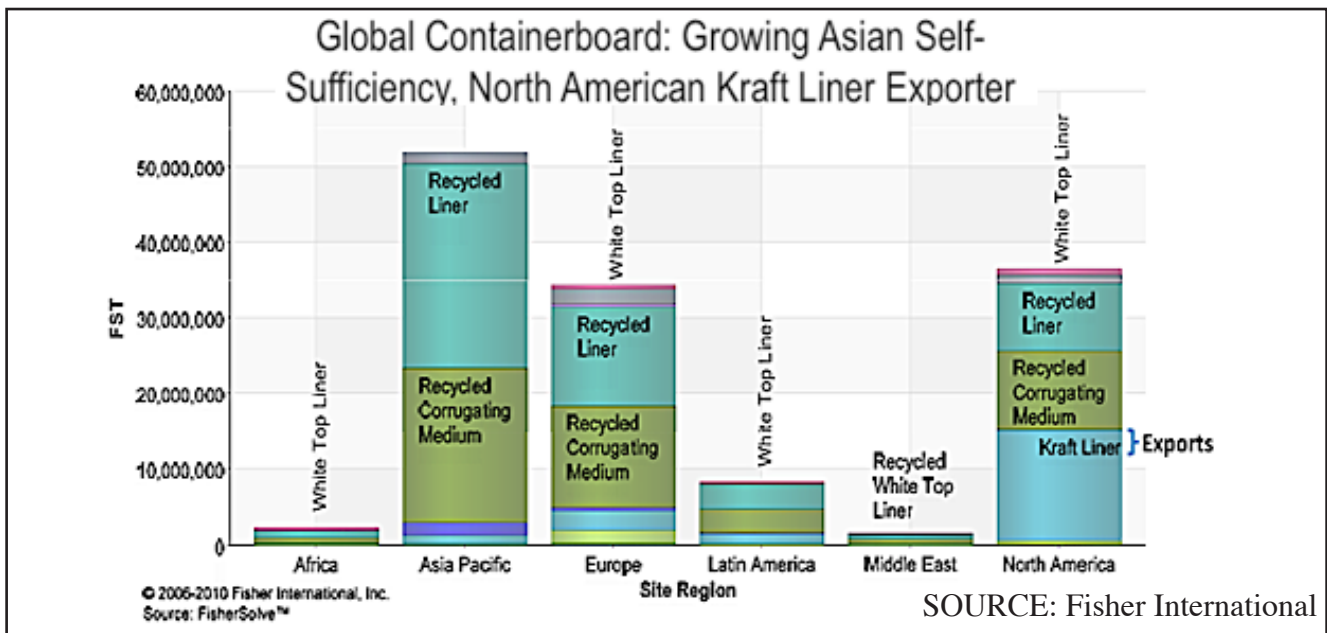
GE Capital Restructuring Finance announced June 30 it is co-collateral agent in a \$US\$650 million asset-based credit facility to Smurfit. The loan supports the company's exit from bankruptcy protection under a Plan of Reorganization. GE Capital Markets served as joint lead arranger.

Analysts predict that containerboard prices will soften in mid-2011. For the seventh straight month, US containerboard paper production has risen sharply when compared to the previous year, according to the American Forest & Paper Association. Total production saw an increase of 238,100 tons, or 9.1 per cent, over May 2009 with average daily production up 0.3 per cent. Year-to-date 2010 production has increased 12.6 per cent over 2009. The containerboard operating rate for May 2010 rose 12.2 points over May 2009, to 95.2 per cent.

Georgia-Pacific announced a US\$60/ton containerboard hike on June 29, effective August 1, to US\$700/ton. The amount and timing of the hike are equal to a hike announced by Longview Fibre some three weeks ago. With the global containerboard market very tight, it would be surprising if International Paper and Smurfit-Stone don't make similar moves, analysts agree. Late Wednesday, International Paper and Temple-Inland did indeed announce \$60/ton containerboard hikes for early August.

In order to dispel fear about the short-term future of containerboard, Chip Dillon, Managing Director of US Equity Research for Credit Suisse, issued a note on June 29 explaining that consensus estimates for the four containerboard-oriented companies in North America reflect a deterioration in pricing between 4 per cent and 16 per cent in late 2010 and/or 2011 from recently increased (spring 2010) levels. Given Georgia-Pacific's price increase announcement June 29, Dillon says, "It appears to us that the financial markets have suspected, charged, convicted and perhaps executed this nascent economic recovery. In other words, we believe that the containerboard stocks are attractive unless 'everything goes right' from a bearish perspective, as an extremely negative scenario (sharp rise in the US dollar, substantial double dip recession) is already built in. Should the economy prove that 'guilt is not beyond a reasonable doubt,' then we believe there is substantial upside in the containerboard names."

In his weekly Paper Wrap-Up, Mark Wilde at Deutsche Bank Equity Research said on June 27 that export prices for old corrugated container are starting to rebound. Chinese pricing rose US\$15/ton in the previous week, following a US\$5 rise in the week before that. If the price rally continues, cost pressure will be placed on containerboard mills, but it could also aid a Q3 2010 price hike.



Following up in his June 29th Pulse on Pricing, Wilde said that containerboard may be facing the tightest market in 15 years due to industry fundamentals such as: continued recovery in box shipments; up in May by 5.3 per cent compared to May 2009; 95 per cent operating rates, and inventories at 30-year lows. Permanent capacity reductions of three million tons since 4Q 2008 and spring maintenance downtime has further tightened the markets. Price hikes in January and April 2010 already added US\$110/ton to domestic list prices.

Shares of containerboard makers jumped Wednesday in afternoon trading. Shares of International Paper Co. climbed 63 cents, or 2.8 per cent, to US\$23.02, while Rock-Tenn Co. advanced \$1.01, or 2.1 per cent, to US\$49.98 and Temple-Inland Inc. added 45 cents, or 2.2 per cent, to US\$21.06. Packaging Corp. of America rose 53 cents, or 2.4 percent, to US\$22.26.

Rod Fisher of Fisher International explained in a containerboard conference call June 30, "In the past containerboard mills invested most in their oldest mills in order to keep them running, then finally had to close those mills due to market conditions, therefore did not earn on those investments. That is now changing. [. . .] When mills are running at capacity people buy as much as they can, thus build inventories. Once inventory levels rise, prices come off," Fisher concluded in explanation of the situation now, which reflects operation decisions of six months, or a year ago.

Looking forward, on June 25 RockTenn announced a US\$25-million investment in a new, state-of-the-art chip mill to furnish its Demopolis, AL, solid bleached sulfate and southern bleached softwood kraft pulp mill with wood chips and bark, scheduled to open in March 2011. The new Saltwell Chip Mill will produce 1.3 million tons per year of chips and 150,000 tons per year of bark for fuel.

The New York Power Authority Board of Trustees approved June 29 allocations to Norampac, a Division of Cascades Inc., a major Canadian manufacturer of containerboard products, to expand its operations in Niagara Falls. Norampac is approved to receive 10 megawatts of low-cost hydropower to construct a new state-of-the-art facility to make "green" containerboard.

Keta Kosman
 Publisher
 Madison's Lumber Reporter
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 www.madisonsreport.com
 604 984-6838