



MADISON'S TIMBER PREVIEW

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Confusion reigns with investors and analysts as players try to get a handle on movements in the stock market. US stock futures were mixed on Thursday as investors geared up for key earnings from J.P. Morgan and a slew of US economic data, and absorbed news on slowing Chinese growth. Futures for the Dow Jones Industrial Average fell 7 points, while those for the S&P 500 fell 0.5 points. Futures for the Nasdaq 100 rose 0.1 points. Among the companies whose shares are expected to actively trade in Thursday's session are Landstar System Inc, Arena Pharmaceuticals Inc, and Universal Forest Products Inc, according to the *Wall Street Journal*.

Universal Forest Products, out of Grand Rapids, MI, reported Wednesday 2Q 2010 results, including a 24 per cent increase in net sales to US\$638.6 million, over US\$514.9 million for the same period last year. Net earnings for the quarter were US\$13.7 million, compared to net earnings of US\$16.1 million for the same period of 2009, or 12 per cent on a slide in margins. The results reflect sales increases in all four of the Company's markets as well as a volatile lumber market that dropped precipitously during the quarter, negatively affecting profits.

"While these numbers aren't where we'd like them to be, they aren't a disappointment given the most unstable lumber market I've seen in my 36 years with the Company," said CEO Michael Glenn in a company press release.

The lumber market was approximately 52 per cent higher, on average, in the second quarter of 2010 compared to the same period of 2009, and was unusually volatile during the quarter, explained the release. This volatility had a significant adverse impact on gross profits, particularly in the month of June. Lumber prices increased to a peak of US\$367 at the end of April and then fell quickly—to US\$247, or 33 per cent, by late June. Since the end of June, lumber prices have stabilized. That volatility hurt gross profit. Shares lost 6.5 per cent to US\$30.50 in after-hours trading Thursday, after trading higher by about 5.5 per cent on Tuesday.

Do-It-Yourself/retail sales increased 8.5 per cent year-over-year to US\$315.8 million, representing 48 per cent of total sales in the second quarter. Industrial packaging/components sales jumped 36.0 per cent year-over-year to US\$179.2 million, representing 28 per cent of total sales based on the company's continuous effort to improve services in the segment. Unit sales increased in excess of 20 per cent in the quarter. Site-built construction revenue in the quarter was US\$72.2 million, up 19.1 per cent year-over-year and represented 11 per cent of total sales. The increase was driven by improvement in the housing industry. Manufactured housing sales, representing 13 per cent of total sales, shot up 82.5 per cent to US\$81.6 million in the quarter. Healthy demand increased unit sales by 41 per cent.

In terms of margins, cost of goods sold increased to 88 per cent of sales from 84 per cent of sales in the second quarter of 2009 due to volatile lumber prices. The company's gross margin dropped to 12.2 per cent from 16.0 per cent in the second quarter of 2009. Operating margin was 3.7 per cent versus 5.3 per cent in the comparable quarter last year, according to *Zacks Investment Research*. Both good news and bad news for Universal Forest Products' 2Q.

How to determine what this means for the rest of 2010? *Madison's* has noticed some movement in the transportation sector of late.

Increased log exports at the Port of Tacoma, a new inland port on the Thompson River near the city of Ashcroft, and a new deal between Canadian Pacific Railway and Port Metro Vancouver all point to expectations of robust shipments in the near future.

The Port of Tacoma paid Weyerhaeuser Co. US\$28 million in 2007 for its export log yard at the end of the Hylebos Waterway. Between 2005 and 2007, the port spent US\$110 million on 1,000 acres of Tide-flats land to get ready for the container shipping boom. Now, the log export business is back as the port scrambles to use assets it acquired when container business was booming.

The increase in business for the Port of Tacoma is largely due to a surge in demand from China for logs, according to the Tacoma News Tribune. Overall container traffic is down 8 per cent year-to-date and exports are down 16.4 per cent, according to *Oregon Business*.

A new service, the Westwood ships, linking Portland to Japan and Korea may alleviate some of the ailments nagging the port. The new line is partially restoring the crucial service that disappeared when the Tokyo "K" Line left Portland in April of 2009 due to the economic downturn. Westwood will carry between 220 and 240 containers once a month, for six months, with an option to extend the contract for another year.

Chuck Strahl, Member of Parliament for Chilliwack-Fraser Canyon and Indian Affairs Minister, announced Wednesday that Ottawa is investing \$5 million in an inland port beside the Thompson River. Entrepreneur Bob Landucci, a Vancouver businessperson who has a background in the forest industry as a mill owner, purchased the 130-hectare benchland six years ago from a blasting company. His vision for a major load and reload facility for trains started to come together in 2009 when he landed a 10-year contract from Lafarge to load red shale from Hat Creek on a newly built siding. Private investment will match or exceed the \$5 million from the Conservative government, with that money coming from a now expired pine beetle recovery fund and funnelled through the Asia-Pacific Gateway and Corridor Initiative, Landucci explained to the *Kamloops Daily News*.

The investment will build a base for an internal loop track, switches on a mainline track and crossings. All of that will set the stage for industrial customers who will use the site, Landucci said.

CPR has signed two new deals with West Coast terminal operators to improve cargo shipments through Canada's Western ports. Canada's second-largest railway operator said June 23 that the agreements will streamline the handling of cargo shipments with the two terminal operators that occupy Port Metro Vancouver, Canada's busiest port for international trade, exchanging \$75 billion in goods annually.

CPR is a major shipper of grain, chemicals, fertilizer, lumber, coal and other resources to West Coast ports destined for China, Japan and other Asian countries. That traffic has grown rapidly in recent years as Canadian trade with Asia expands.

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