



MADISON'S TIMBER PREVIEW

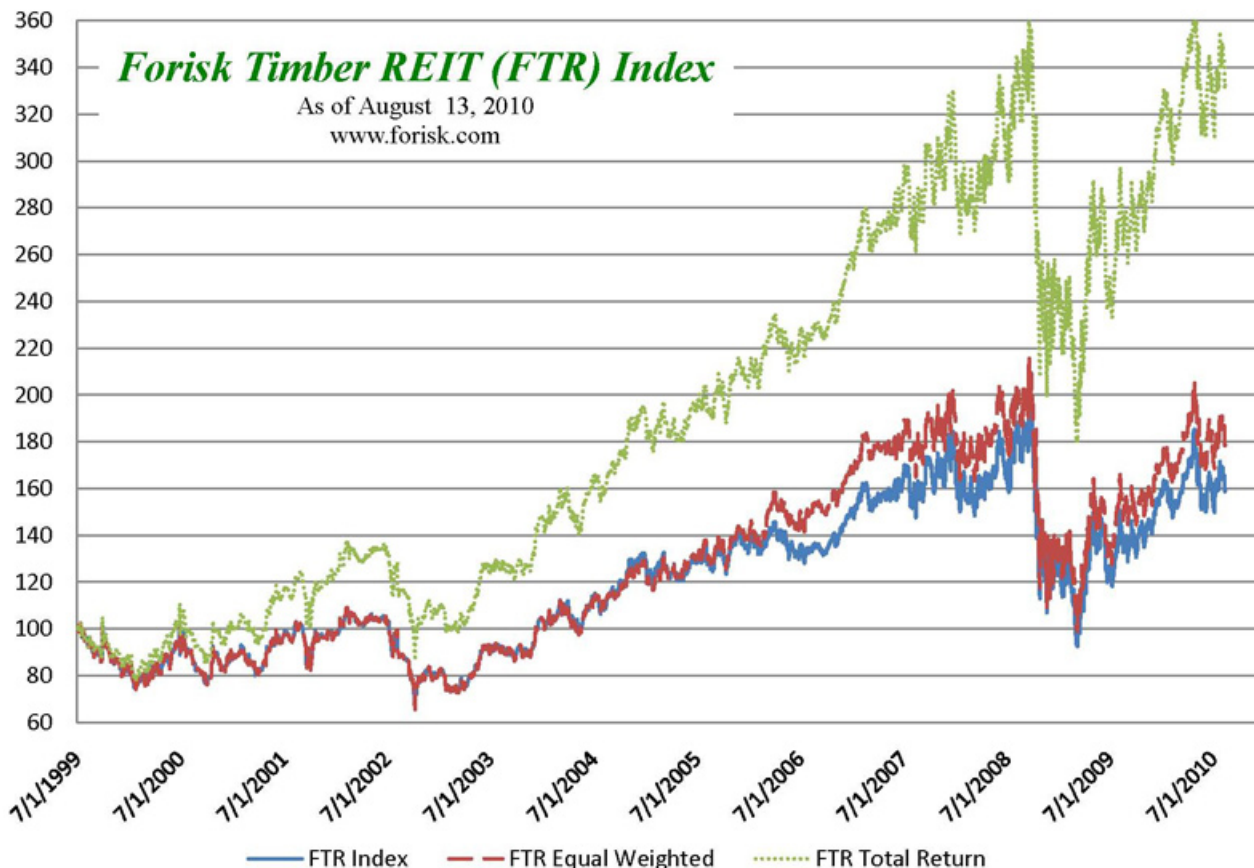
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Making waves recently in the worlds of both timberland investment and solid wood production is Weyerhaeuser, well on its way to exiting the world of sawmills and entering the territory of Real Estate Investment Trusts. The REIT structure will help the company reduce its tax liabilities due to lower taxes, qualifying timberlands income, and increased competitiveness in managing its timber portfolio. Reversal of certain tax liabilities in the US will benefit Weyerhaeuser's 3Q 2010 financial results by US\$1 billion. With 6.4 million acres of timberlands, the company is perfectly suited for adopting a REIT structure, as REITs must distribute 90 per cent of their ordinary taxable income to shareholders and they pay no corporate level tax on qualified income.

Upon converting, Weyerhaeuser will join the three publicly-traded REITs; Plum Creek, Rayonier, and Potlatch. With Weyerhaeuser, timber REITs will comprise approximately 7.5 per cent of the total public REIT market capitalization, according to *Forisk*.

To that end, on September 17, 2010, Weyerhaeuser announced the sale of its high purity cellulose mill in Cosmopolis, WA, near Aberdeen, closed since October 2005, to the Gores Group. That buyer is led by an investor group including Dermot Smurfit, a paper and packaging industry veteran. The acquisition was made for an undisclosed amount. The mill is renamed Cosmo Specialty Fibers. CEO Michael Entz anticipates demand for the mill's primary products, viscose and acetate, would accelerate in the years to come.



"The Cosmopolis mill has the potential to produce very high quality products and I am very excited to be a part of its renewed success," said Entz to the *Financial Post*.

Needing to sell or close more assets, on September 1, 2010, Weyerhaeuser announced it will close its Albany, OR, engineered wood plant in the next two weeks after filling existing customer orders, laying off 70 people.

The company has hauled away about 4,000 tons of gasoline-contaminated soil at its Warrenton, OR, sawmill sold last December to Hampton Affiliates. The new owners of the mill plan to reopen it in spring.

"For Weyerhaeuser, alternatives are non-existent in wood products. The company must divest engineered wood and hardwood assets," said Mark Wilde, senior Deutsche Bank forestry analyst, a speaker this week at *Who Will Own the Forest 6?* in Portland, OR.

In further preparation for the REIT conversion, Weyerhaeuser paid a previously announced US\$5.6 billion special dividend on September 1. The dividend consisted of approximately 324 million shares of common stock and US\$560 million in cash. Company shares promptly rose 4 per cent on the dividend payment. However, so far in 2010 the stock has hit a 52-week low of US\$15.06 and 52-week high of US\$53.69. On September 14 Weyerhaeuser had an annual dividend yield of 0.52 per cent, according to *Market Intelligence Center*.

On July 30 Weyerhaeuser reported net earnings of US\$14 million for 2Q 2010 on net sales of \$1.8 billion, which compares with a net loss of US\$106 million on net sales from continuing operations of US\$1.4 billion for the same period last year.

In an unfortunate twist, Minnetonka, MN-based Kleen Products filed an antitrust lawsuit September 10 in federal court in Chicago, alleging that Weyerhaeuser, Packaging Corporation of America, International Paper, Norampac, Cascades, Domtar, Georgia Pacific, Temple-Inland, and Smurfitstone in 2005 were fixing the prices on containerboard.

Weyerhaeuser faces stiff competition from International Paper, Louisiana-Pacific, and Canfor; while the industry's sensitivity to macroeconomic conditions remains a cause of concern, according to *Zacks.com*.

"Weyerhaeuser's timberlands are widely considered to be among the best managed in the US and are diverse enough to form an attractive alternative to existing timber REITS," Mark Connelly, of Sterne, Agee & Leach, said in a note to clients December 15, 2009 after the Weyerhaeuser REIT conversion announcement.

Within Weyerhaeuser's portfolio of timberlands is 600,000 acres of non-strategic lands that are available for sale, as well as other assets, specifically mills. *Fitch Ratings* estimates that the non-strategic acreage could be worth around \$1.2 billion which Weyerhaeuser could use to restore liquidity, repay debt, and buy back stock. Such actions could affect the company's negative debt ratings; however, the timing, composition, ability and desire are yet to be seen.

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