



MADISON'S TIMBER PREVIEW

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The most recent issue of your *Madison's Timber Preview* indicated movement forward for the North American forest industry after this prolonged downturn. This week, several companies announced plans for new mills, existing mill expansion, and capital upgrades. Cascades Inc, Meadwestvaco, Canfor Corp, and Kruger Inc. have all recently indicated expenditure plans.

Forced to sell its Dopaco food packaging business and announcing several box plant closures this year as it revamps its North American Norampac unit, Cascades is in the midst of a cost-cutting and asset disposal exercise that has put investors on edge and sent its shares down 20 per cent since April 28, 2011.

Cascades is investing almost US\$100 million in a new US\$430 million containerboard mill located in Niagara Falls, NY, with annual output of 540,000 tonnes of lightweight linerboard to produce packaging materials from 100 per cent recycled fibre, and due to start up in 2013. The new machine would equal about 1.5 per cent of the North American containerboard market. The machine will be constructed within a joint venture with Cascades, making an equity investment of US\$83.6 million, Quebec's Caisse du depot, putting up US\$28.3 million, and one other unnamed industry partner. In all, Cascades's equity and debt exposure is US\$98.85 million. Jamestown Container, a Buffalo, NY, based packaging maker, will buy a significant portion of mill output. Some industry sources indicate that Metso will supply the containerboard production line.

Construction starts in July and that mill will create 108 permanent jobs. This deal provides Cascades a way of strengthening its market position in the light-weight packaging board with a large state-of-the-art facility, and gaining a foothold in US production. The company said it has secured customers for 80 per cent of the expanded mill's planned yearly output.

GE Capital announced Monday it is administrative agent for a total of US\$228.9 million in project finance credit facilities.

Meadwestvaco, with an approximately 30 per cent share of global multiple packaging market, announced Tuesday it will build a biomass boiler and upgrade its power system at its flagship Covington, VA, bleached paperboard mill in a \$285 million investment. This project includes a new biomass boiler and 75 megawatt steam turbine generator system, replacing two older and less efficient units at that mill. The new system will make the 900,000 ton Covington tissue mill self-sufficient in electric power and steam, and allow for the sale of 5 to 10 megawatts of electricity. The project will begin in 4Q 2011 and should be completed by late 2013, which will be in time to qualify for a 30 per cent tax credit under the US stimulus package.

In terms of projected returns, if the net cost of construction is US\$200 million and the project eliminates US\$35 million of outside energy purchases, the base return might be 15 to 20 per cent.

The company is suggesting that the capital spend for Covington will be US\$55 million in 2011, US\$175 million in 2012, and US\$55 million in 2013. Added to Meadwestvaco's US\$480 million expansion of its Brazilian operations announced in early 2011, this new project boosts capital spending over for the next three years. Company depreciation and amortization has been running at about US\$385 million per year.

Canfor Pulp announced Friday \$10 million dollars of investment for the installation of advanced pulp quality monitoring systems at three BC pulp mills, an in-house innovation lab to be built in Burnaby,

BC, and support for research activities at two British Columbia universities. The Canfor Pulp Innovation Centre will have an annual operating budget of \$2 million at its laboratory, and a staff of nine. The three Prince George, BC, mills will receive \$8 million dollars in new sensing technologies which will help Canfor maximize production and pulp value. Canfor Pulp will also provide up to \$225 thousand dollars over the next three years to faculty at UNBC and UBC.

Kruger is deciding whether to go ahead with plans for a US\$312.5 million expansion of its North Memphis, TN, tissue mill, since the local industrial board approved major tax incentives for the company Tuesday. This investment would be used to construct a new building at the existing mill's location, and to buy and install new energy and cost efficient machinery, and would take about a year and a half to complete. Currently, at 100,000 tons tissue production annually, that expansion would add about 540,000 tons and 100 new

jobs to the existing 294 person Kruger workforce in the area. Kruger mills in BC, Quebec, and Memphis have a combined papermaking capacity that represents 37 per cent of Canada's total installed tissue manufacturing capacity.

In January, Investissement Quebec was talking with Kruger about instead financing roughly \$100 million for a new machine at its Crabtree mill north of Montreal, QC, according to the Montreal Gazette. That mill currently has 70,000 metric tonnes of tissue production capacity and some 700 employees. Communities, in both Quebec and Tennessee are championing having the Kruger project go forward in their area.

Within the past year and a half, International Paper has shut machines at two mills, Smurfit-Stone has permanently closed two mills, and West Fraser Timber shut its Eurocan mill – collectively removing about 1.6 million short tons of capacity of North American production.

Deutsche Bank analysts issued a release Monday stating they suspect that this will not be the last such capacity announcement. Discussions within the trade suggest that Australia's Pratt Industries may be evaluating a new recycled containerboard mill in Northern Indiana, said Deutsche Bank's Mark Wilde in a note to clients. In 2009 Pratt built the industry's most recent greenfield mill, at about 400,000 tons tissue production annually, in Shreveport, LA. Pratt also has a corrugated mega-plant in Valparaiso, IN, and has reportedly studied the concept of locating a recycled mill in the same area.

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