



# MADISON'S TIMBER PREVIEW

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First quarter 2012 results are out for North American forest products companies, as are US and Canadian lumber production figures for February, and US wood import data for March. Together, this information tells a good story of economic turnaround for the solid wood industry.

US lumber production in February increased by 9.2 per cent from February 2011, according to the Western Wood Products Association (WWPA) this week. Through February of this year, US production was 4.58 billion board feet, 9.2 per cent higher than the same period in 2011. Canadian lumber production in February increased 8.1 per cent from February 2011, and 5 per cent from January 2012, according to the WWPA. Through February of this year, Canadian production was 3.78 billion board feet, 4.6 per cent higher than the same period in 2011.

This week Montreal, QC's, Resolute Forest Products' essentially finalized its ugly takeover attempt on Fibrek. Given Resolute's, formerly AbitibiBowater, abysmal track record in absorbing previously very successful companies only to be met with absolute failure, one has to wonder how Fibrek will make out following this merger. A mass exodus of Fibrek's board of directors and management team does little to instill confidence in future company performance. Sentiment of Resolute's executives did not improve when the company on May 3 posted a 23 per cent decline in its 1Q profit compared to this time last year. The company earned \$23 million, or \$0.23 per share, on sales revenue of \$1.1 billion in the quarter ended March 31. That compares to \$30 million in net income, or \$0.31 per share, on \$1.19 billion in sales revenue for 1Q 2011.

The same day, Interfor, based in Vancouver, BC, recorded a net loss of \$5.2 million, or \$0.09 per share, excluding the tax allowance and other one-time items, in 1Q 2012. This compared to a net loss of \$1.7 million, or \$0.03 per share, in 1Q 2011.

Also out of Vancouver, BC, Canfor reported a net loss of \$16.2 million, or 11 cents per share, for 1Q 2012, compared with a profit of \$7 million, or 5 cents per share a year ago. Revenue totalled \$607.6 million, down from \$624 million in 2011.

Canfor also announced it will spend \$40 million on much-needed capital improvement projects at its sawmills in BC's Kootenay region. The company plans to spend \$38.5 million on a new planer, a biomass energy system, and modifications to the existing sawmill in Radium Hot Springs, BC. The balance will be invested at the company's Canal Flats, BC, sawmill to improve drying capacity. Upgrades at the Radium mill will begin in May, with start up at that operation expected in 4Q.

Canfor blamed weak pulp and paper prices for the drop in 1Q 2012 earnings. Canfor Pulp net income for that quarter was \$10.3 million, or 13 cents per, on revenue of \$220 million, compared with net income of \$50.7 million, or 71 cents per share, on \$252.3 million in revenue in the comparable period of 2011.

In March, the relationship between Canfor Pulp, Canfor Corp, and Canfor Pulp LP was changed. Canadian Forest Products exchanged about 35.8 million units in Canfor Pulp LP for an equivalent number of Canfor Pulp shares. As a result of this exchange, Canfor Pulp increased its interest in the partnership from 49.8 to 100 per cent, and Canfor Corp acquired a 50.2 per cent interest in the pulp company.

Still in Vancouver, BC, West Fraser Timber in 1Q 2012 lost \$16.7 million, or 39 cents per share, on sales of \$681 million, compared with a profit of \$18.9 million, or 44 cents per share, on sales of \$687 million a year ago.

For its part, West Fraser on May 3 signed a deal with Pratt & Whitney Power Systems, which will deliver a biomass heat recovery power plant, capable of generating 13 MW of power, at the company's Chetwynd, BC, mill. West Fraser has a 20-year electricity purchase agreement with BC Hydro to sell 180 GWh/year of electricity generated from wood biomass from two sites.

On the coast, Campbell River, BC's, Western Forest Products reported net income for the 1Q 2012 of \$1.9 million, a decrease of \$1.9 million from net income of \$3.8 million reported a year earlier. However, the company had its highest quarterly lumber sales revenue since the second quarter of 2007, with \$157.2 million in sales on volumes of 220 million board feet. Log sales were also improved, with shipments up 39 per cent over the first quarter of 2011, Western said.

In the East, EACOM Timber, based in Montreal, QC, this week posted 1Q 2012 net income of \$6.3 million, or \$0.01 per share, against a net loss of \$6.1 million, or \$0.01 per share, in the corresponding quarter of 2011. The 2012 results include a gain of \$14.3 million on disposal of property, plant, and equipment destroyed by the sawmill fire in Timmins, ON, whereas the previous quarter results included an impairment charge of \$15 million.

Another company out of Montreal, QC, Tembec, generated a net loss of \$14 million, or \$0.14 per share, in 1Q 2012 on consolidated sales of \$407 million. This compared to net earnings of \$6 million, or \$0.06 per share, on sales of \$452 million for the same time last year.

The poor showing prompted Tembec CEO James Lopez to publicly reconsider an investment of up to \$60 million in its lumber facilities in favour of alternatives.

"We're not announcing we're spinning off the lumber business or selling or anything like that today, but all those things are up for review," he said April 27 during a conference call.

Also headquartered in Montreal, QC, Domtar reported 1Q 2012 revenue held up well at \$1.39 billion, compared to \$1.42 billion a year earlier. But lower pulp prices, higher fuel and materials costs, and special charges brought earnings to \$28 million, or 76 cents a share, down from \$133 million, or \$3.14 a share a year earlier.

On May 2 the company announced another increase in its quarterly dividend, by 29 per cent. Over the past two years, Domtar has increased its dividend by about 80 per cent and committed to repurchase \$1 billion of its shares. Then on May 11, the company announced a US\$61 million acquisition of Engineered Absorbent Materials, which supplies the core material used in feminine hygiene products and puppy pads.

Back in British Columbia, Vancouver's Ainsworth Lumber last week recorded a 1Q 2012 net income of \$0.7 million on sales of \$85.1 million, compared to earnings of \$77.7 million on sales of \$98.7 in 1Q 2011. This change is primarily the result of a \$73 million gain that was recorded in the 1Q 2011 on the acquisition of the remaining 50 per cent interest in the High Level, AB, sawmill.

Conifex, based in Prince George, BC, on February 21 posted a net 4Q 2011 loss of \$7.5 million, or \$0.49 per share, compared to a net loss of \$3.9 million, or \$0.26 per share, for the same quarter in 2010. At the PwC annual Forestry, Paper, and Packaging Conference in Vancouver, BC, Conifex CEO Ken Shields revealed that the company "may be profitable this quarter."

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