

Forest Products

July 19, 2011

Industry Brief

Daryl Swetlishoff CFA | 604.659.8246 | daryl.swetlishoff@raymondjames.ca
 David Quezada CFA (Associate) | 604.659.8257 | david.quezada@raymondjames.ca

Building Materials

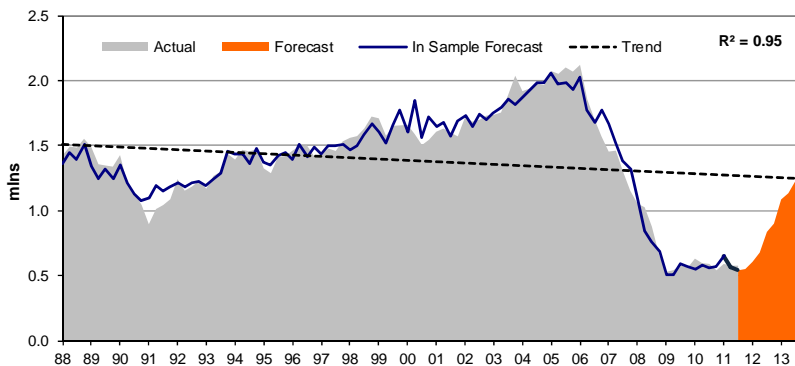
Building Materials: Jun-11 US Housing Starts Rise 15% mth/mth, Beat Expectations

Impact: Positive for building materials producers Canfor (CFP-TSX, Outperform), West Fraser (WFT-TSX, Outperform), Interfor (IFP.A-TSX, Outperform), and Norbord (NBD-TSX, Market Perform)

US housing starts were released this morning revealing a 15% mth/mth increase to 629K for Jun-11 (a 6-month high), from 549K starts in May-11 and well above consensus estimates of 575K. Details as follows:

- While we certainly see this as a positive, we note lumber intensive single family housing starts notched a smaller mth/mth improvement coming in at 453K starts, from 414K in May-11, a 9% increase, compared to more volatile multi-family housing starts which jumped 32% mth/mth to 176K. Forward looking building permits also increased 2.5% mth/mth to 624K, above expectations of 600K and the highest total since Dec-10.
- While conditions remain depressed in general, with the rapid pace of growth in shipments to China, which hit a record 466 mln fbm for May-11 (up 150+% y/y and 50% mth/mth), short term increases in US construction activity have greater potential to impact prices, than would ordinarily be the case, in our view.
- Lumber futures are responding positively to this news, with Sep-11 contracts up US\$3.70/mfbm to US\$266/mfbm and Nov-11 contracts up US\$3.80/mfbm to US\$277/mfbm. Mar-12 contracts (the furthest maturity out) are currently US\$304.50/mfbm.
- Including June, YTD housing starts are averaging 579K YTD, in-line with our 580K annual estimate (see Exhibit below). Our housing model currently forecasts housing starts increasing to 750K in 2011 and 1.2 mln in 2013.

Exhibit 1: Raymond James Ltd. US Housing Regression Model



Independent Variables	Coeff.	t-Stat	Actuals		--Forecast--			
			2009	2010	2011	2012	2013	2014+
Intercept	2.721	10.41						
US GDP	0.031	6.88	(0.6)	2.7	3.4	3.1	3.0	2.6
CASE SHILLER INDEX	0.005	6.89	156	158	152	150	156	160
FANNIE MAE 30 Yr MORTGAGE RATE	(0.040)	(2.21)	3.3	3.2	3.6	4.1	5.6	7.2
FORECLOSURES STARTED	(0.654)	(9.12)	1.4	1.4	1.4	1.1	0.9	0.6
25-34 YRS	0.112	3.70	0.9	1.3	1.6	1.5	1.5	1.5
>65 YRS	(0.108)	(2.13)	2.2	1.8	2.2	2.6	2.6	2.6
UNEMPLOYMENT RATE	(0.077)	(4.28)	9.3	9.8	9.1	8.5	7.8	7.5
TOTAL HOUSING INVENTORY	(0.222)	(6.36)	4.1	4.8	5.0	4.7	3.6	3.5
US Total Housing Starts (mln)			0.55	0.59	0.58	0.75	1.20	1.40
Yr/Yr % Change			-39%	7%	-2%	31%	59%	16%

Source: Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 3 and Analyst Certification on page 4.

Raymond James Ltd. | 2200 – 925 West Georgia Street | Vancouver BC Canada V6C 3L2

Company	Ticker Primary	Ticker Secondary	Current Price	Dividend Yield	Rating
Building Materials					
Canfor Corp.	CFP-TSX		C\$11.90		Outperform 2
Interfor	IFP.A-TSX		C\$5.35		Outperform 2
Norbord Inc.	NBD-TSX		C\$11.56		Market Perform 3
Sino-Forest Corporation	TRE-TSX		C\$4.02		Under Review
West Fraser Timber	WFT-TSX		C\$49.15	1%	Outperform 2
Raymond James Ltd.					

Important Investor Disclosures

Raymond James is the global brand name for Raymond James & Associates (RJA) and its non-US affiliates worldwide. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Affiliates include the following entities, which are responsible for the distribution of research in their respective areas. In Canada, Raymond James Ltd., Suite 2200, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200. In Latin America, Raymond James Latin America, Ruta 8, km 17, 500, 91600 Montevideo, Uruguay, 00598 2 518 2033. In Europe, Raymond James European Equities, 40, rue La Boetie, 75008, Paris, France, +33 1 45 61 64 90.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation nor does it take into account the particular investment objectives, financial situations, or needs of individual clients. Information in this report should not be construed as advice designed to meet the individual objectives of any particular investor. **Investors should consider this report as only a single factor in making their investment decision.** Consultation with your investment advisor is recommended. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

With respect to materials prepared by Raymond James Ltd. ("RJL"), all expressions of opinion reflect the judgment of the Research Department of RJL, or its affiliates, at this date and are subject to change. RJL may perform investment banking or other services for, or solicit investment banking business from, any company mentioned in this document.

All Raymond James Ltd. research reports are distributed electronically and are available to clients at the same time via the firm's website (<http://www.raymondjames.ca>). Immediately upon being posted to the firm's website, the research reports are then distributed electronically to clients via email upon request and to clients with access to Bloomberg (home page: RJLC), First Call Research Direct and Reuters. Selected research reports are also printed and mailed at the same time to clients upon request. Requests for Raymond James Ltd. research may be made by contacting the Raymond James Product Group during market hours at (604) 659-8000.

In the event that this is a compendium report (i.e., covers 6 or more subject companies), Raymond James Ltd. may choose to provide specific disclosures for the subject companies by reference. To access these disclosures, clients should refer to: <http://www.raymondjames.ca> (click on Equity Capital Markets / Equity Research / Research Disclosures) or call toll-free at 1-800-667-2899.

Analyst Information

Analyst Compensation: Equity research analysts and associates at Raymond James are compensated on a salary and bonus system. Several factors enter into the compensation determination for an analyst, including i) research quality and overall productivity, including success in rating stocks on an absolute basis and relative to the local exchange composite Index and/or a sector index, ii) recognition from institutional investors, iii) support effectiveness to the institutional and retail sales forces and traders, iv) commissions generated in stocks under coverage that are attributable to the analyst's efforts, v) net revenues of the overall Equity Capital Markets Group, and vi) compensation levels for analysts at competing investment dealers.

Analyst Stock Holdings: Effective September 2002, Raymond James equity research analysts and associates or members of their households are forbidden from investing in securities of companies covered by them. Analysts and associates are permitted to hold long positions in the securities of companies they cover which were in place prior to September 2002 but are only permitted to sell those positions five days after the rating has been lowered to Underperform.

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. In addition, said analyst has not received compensation from any subject company in the last 12 months.

Ratings and Definitions

Raymond James Ltd. (Canada) definitions

Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. **Outperform (MO2)** The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. **Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. **Underperform (MU4)** The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Raymond James & Associates (U.S.) definitions

Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months. **Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months. **Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months. **Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold. **Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

Raymond James Latin American rating definitions

Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months. **Outperform (MO2)** Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months. **Market Perform (MP3)** Expected to perform in line with the underlying country index. **Underperform (MU4)** Expected to underperform the underlying country index. **Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon. In transacting in any security, investors should be aware that other securities in the Raymond James research coverage universe might carry a higher or lower rating. Investors should feel free to contact their Financial Advisor to discuss the merits of other available investments.

Raymond James European Equities rating definitions

Strong Buy (1) Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe. **Buy (2)** Absolute return expected to be at least 10% over the next 12 months. **Fair Value (3)** Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months. **Sell (4)** Expected absolute drop in the share price of more than 10% in next 12 months.

Suitability Categories (SR)

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

Total Return (TR) Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

Rating Distributions

	Coverage Universe Rating Distribution		Investment Banking Distribution	
	RJL	RJA	RJL	RJA
Strong Buy and Outperform (Buy)	76%	55%	59%	16%
Market Perform (Hold)	22%	40%	43%	5%
Underperform (Sell)	2%	5%	0%	0%

Raymond James Relationship Disclosures

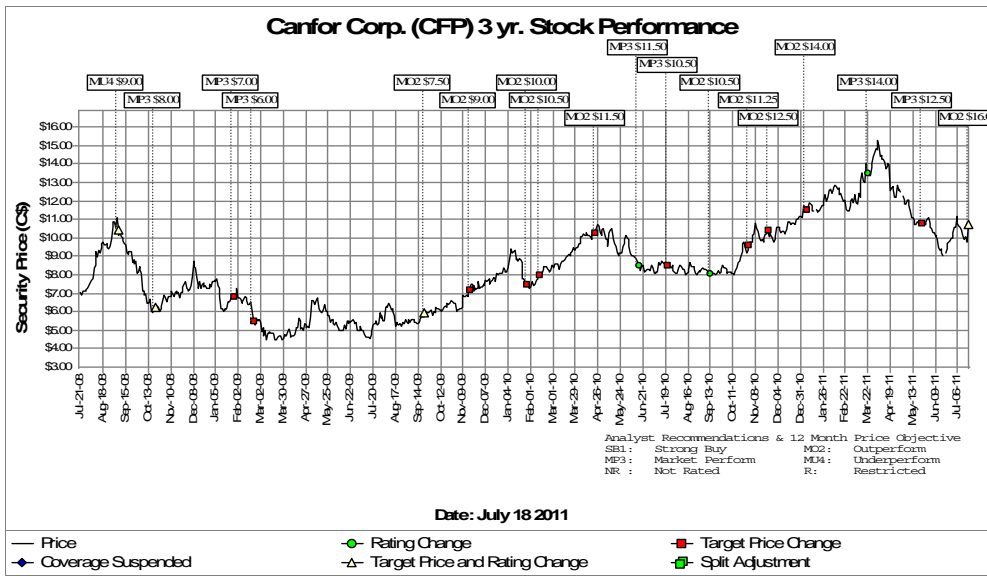
Raymond James Ltd. or its affiliates expects to receive or intends to seek compensation for investment banking services from all companies under research coverage within the next three months.

Company Name	Disclosure
Canfor Corp.	Raymond James Ltd. makes a market in the securities of Canfor Corp. Within the last 12 months, Canfor Corp. has paid for all or a material portion of the travel costs associated with a site visit by the Analyst and/or Associate.
Interfor	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to Interfor. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to Interfor. Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Interfor.
Sino-Forest Corporation	Within the last 12 months, Sino-Forest Corporation has paid for all or a material portion of the travel costs associated with a site visit by the Analyst and/or Associate.

Stock Charts, Target Prices, and Valuation Methodologies

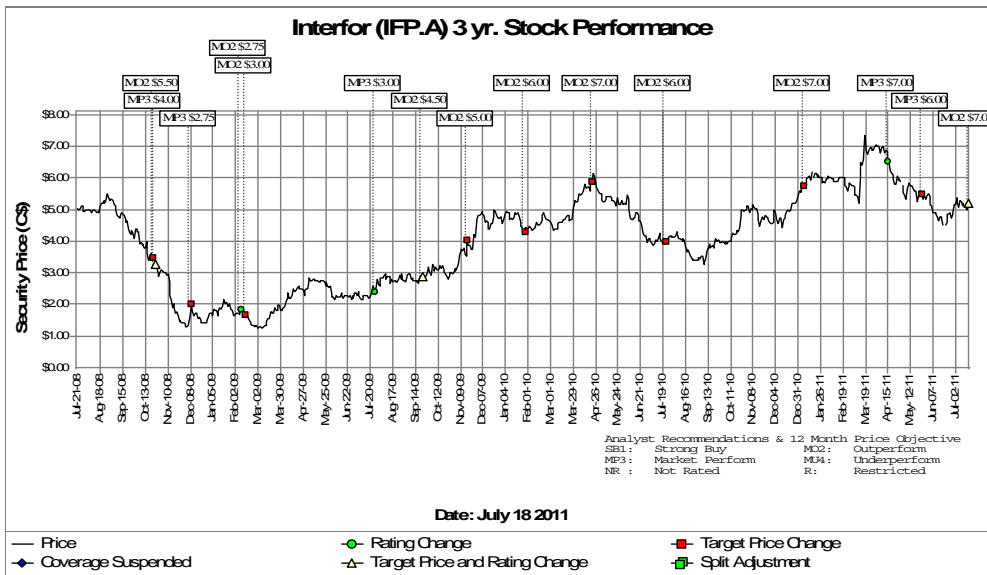
Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.



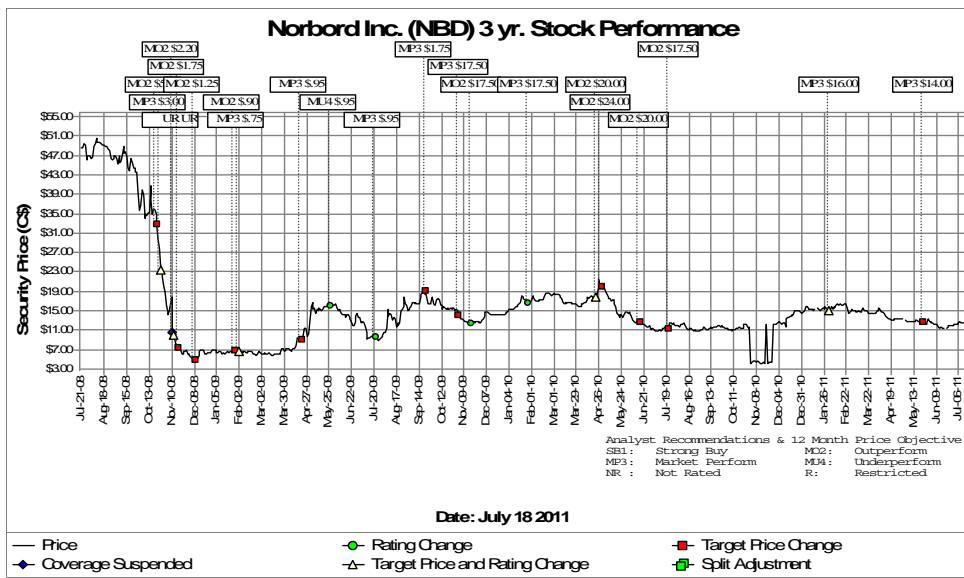
Update Date	Closing Price	Target Price	Rating
Jul-19-11	10.74	16.00	2
May-24-11	10.78	12.50	3
Mar-22-11	13.52	14.00	3
Jan-07-11	11.52	14.00	2
Nov-22-10	10.45	12.50	2
Oct-29-10	9.63	11.25	2
Sep-13-10	8.07	10.50	2
Jul-21-10	8.54	10.50	3
Jun-15-10	8.53	11.50	3
Apr-21-10	10.31	11.50	2
Feb-11-10	7.98	10.50	2
Jan-27-10	7.50	10.00	2
Nov-17-09	7.18	9.00	2
Sep-22-09	5.96	7.50	2
Feb-20-09	5.51	6.00	3
Jan-27-09	6.85	7.00	3
Oct-22-08	6.25	8.00	3
Sep-04-08	10.45	9.00	4

Valuation Methodology: We value Canfor on a comparative basis to historical multiples.



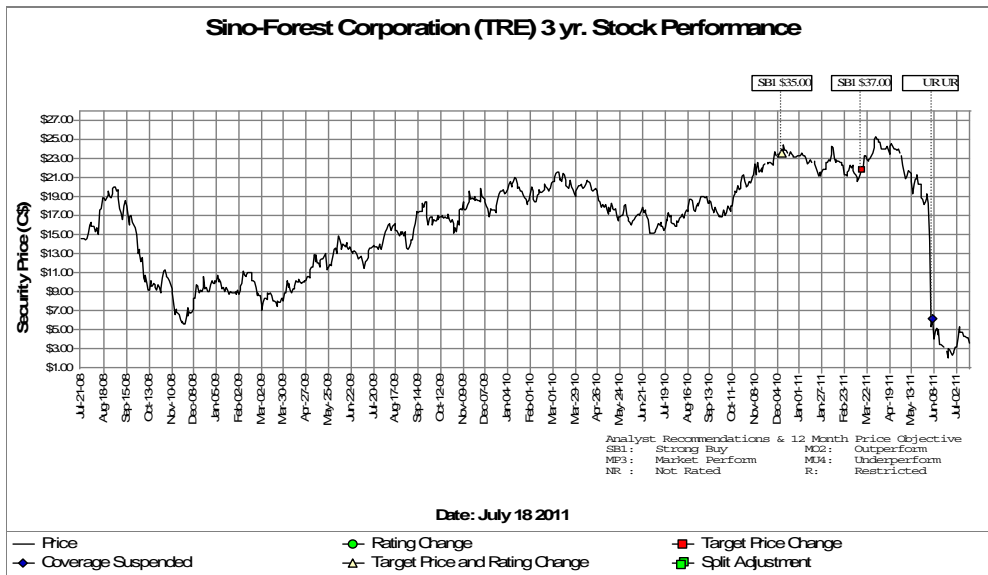
Update Date	Closing Price	Target Price	Rating
Jul-19-11	5.19	7.00	2
May-24-11	5.49	6.00	3
Apr-15-11	6.55	7.00	3
Jan-07-11	5.75	7.00	2
Jul-21-10	4.00	6.00	2
Apr-21-10	5.88	7.00	2
Jan-27-10	4.31	6.00	2
Nov-17-09	4.05	5.00	2
Sep-22-09	2.90	4.50	2
Jul-24-09	2.40	3.00	3
Feb-13-09	1.66	3.00	2
Feb-09-09	1.84	2.75	2
Dec-09-08	2.00	2.75	3
Oct-24-08	3.25	4.00	3
Oct-22-08	3.48	5.50	2

Valuation Methodology: We value Interfor on a comparative basis to historical multiples.



Update Date	Closing Price	Target Price	Rating
May-24-11	12.74	14.00	3
Feb-01-11	14.93	16.00	3
Jul-21-10	11.50	17.50	2
Jun-15-10	12.85	20.00	2
Apr-28-10	20.15	24.00	2
Apr-21-10	17.93	20.00	2
Jan-27-10	16.66	17.50	3
Nov-17-09	12.60	17.50	2
Nov-02-09	14.15	17.50	3
Sep-22-09	19.10	1.75	3
Jul-21-09	9.80	0.95	3
May-26-09	16.00	0.95	4
Apr-20-09	9.10	0.95	3
Feb-02-09	6.50	0.75	3
Jan-27-09	7.00	0.90	2
Dec-09-08	5.00	1.25	2
Nov-18-08	7.60	1.75	2
Nov-12-08	10.00	2.20	2

Valuation Methodology: We value Norbord on a comparative basis to historical multiples.



Update Date	Closing Price	Target Price	Rating
Jun-07-11	6.10	UR	UR
Mar-16-11	21.77	37.00	1
Dec-10-10	23.58	35.00	1

Valuation Methodology: We value Sino-Forest by discounted cash flow valuation with cash flows forecasted out to the year 2020.



Valuation Methodology: We value West Fraser Timber on a comparative basis to historical multiples.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Risks - Canfor Corp.

Forest product prices are cyclical, worse than expected economic conditions could reduce our price forecasts. ii) As sales are typically denominated in U.S. dollars, a depreciation of the U.S. dollar could negatively affect earnings. iii) Canfor operates on Crown land. Government policy changes could negatively affect operating margins. v) Forest product markets are global in nature issues affecting transportation or market access could impact earnings. vi) Extreme weather conditions or fires could impact harvesting plans and hence earnings.

Risks - Interfor

i) Lumber prices are cyclical, slower than expected economic growth or higher mortgage rates could reduce our price forecasts. ii) As sales are denominated in U.S. dollars, a depreciation of the U.S. dollar could negatively affect earnings. iii) Interfor’s logging operations are primarily on Crown land. Government policy changes could negatively affect operating margins, iv) Forest product markets are global in nature issues affecting transportation or market access could impact earnings.

Risks - Norbord

i) Wood based panel products are highly cyclical, slower than expected residential construction rates, economic growth or plywood substitution rates could reduce OSB demand, pricing and earnings. ii) Additional announced capacity increases or a faster ramp up of existing projects could reduce our commodity price forecasts and earnings. iii) A reduction in the availability or an increase in price of raw materials such as fibre (e.g., related to market conditions or weather) and resin (e.g., related to oil prices) could negatively affect operating margins iv) Forest product markets are global in nature, trade issues affecting market access could impact earnings.

Risks - Sino-Forest Corporation

The key risks to our target price include: 1) cyclical nature of forest products industry and fluctuations in the prices of logs and other wood products 2) any delays/issues in executing growth initiatives and eventual execution of perpetual rotation

business model 3) instability in the political climate in China 4) inclement weather/ droughts impacting tree growth 4) FX risk including potential weakening of the Renminbi 5) the threat of new competitors 6) reliance on key executives and members of management and relationships with government officials 7) rising input and labour costs 8) the potential reduction in the growth of China's economy and demand for wood products

Risks - West Fraser Timber

Forest product prices are cyclical, worse than expected economic conditions could reduce our price forecasts. ii) As sales are typically denominated in U.S. dollars, a depreciation of the U.S. dollar could negatively affect earnings. iii) West Fraser operates on Crown land. Government policy changes could negatively affect operating margins. v) Forest product markets are global in nature issues affecting transportation or market access could impact earnings. vi) Extreme weather conditions or fires could impact harvesting plans and hence earnings.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at www.raymondjames.ca/researchdisclosures. Copies of research or Raymond James' summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see raymondjames.com for office locations) or by calling 727-567-1000, toll free 800-237-5643 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6th Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.

International Disclosures

For clients in the United States:

Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details.

Raymond James Ltd. is not a U.S. broker-dealer and therefore is not governed by U.S. laws, rules or regulations applicable to U.S. broker-dealers. Consequently, the persons responsible for the content of this publication are not licensed in the U.S. as research analysts in accordance with applicable rules promulgated by the U.S. Self Regulatory Organizations.

Any U.S. Institutional Investor wishing to effect trades in any security should contact Raymond James (USA) Ltd., a U.S. broker-dealer affiliate of Raymond James Ltd.

For clients in the United Kingdom:

For clients of Raymond James & Associates (RJA) and Raymond James Financial International, Ltd. (RJFI): This report is for distribution only to persons who fall within Articles 19 or Article 49(2) of the Financial Services and Markets Act (Financial Promotion) Order 2000 as investment professionals and may not be distributed to, or relied upon, by any other person.

For clients of Raymond James Investment Services, Ltd.: This report is intended only for clients in receipt of Raymond James Investment Services, Ltd.'s Terms of Business or others to whom it may be lawfully submitted.

For purposes of the Financial Services Authority requirements, this research report is classified as objective with respect to conflict of interest management. RJA, Raymond James Financial International, Ltd., and Raymond James Investment Services, Ltd. are authorized and regulated in the U.K. by the Financial Services Authority.

For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

Proprietary Rights Notice: By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any

other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement.

Additional information is available upon request. This document may not be reprinted without permission.

RJL is a member of CIPF. ©2011 Raymond James Ltd.