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Forest Products

Industry Comment - Changes

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Forest Products

Forest Products: Seasonal Lumber Trade on Deck; Downgrading Pulp Names on Deteriorating Outlook

Pulp & Paper - Downgrading NBSK Producers; - Despite our expectation of solid 3Q11 results and a bullish long term NBSK outlook we are downgrading Canfor Pulp (CFX-TSX) and Mercer International (MERC-NASDAQ) to Market Perform on deteriorating industry fundamentals while cutting our target share prices to \$16 (from \$18.50) and \$10 (from \$14) respectively. We are also reducing our target price for Fibrek (FBK-TSX) to \$1.00 from \$1.40 while maintaining our Market Perform rating. We previously expected a heavy fall maintenance season to balance softwood pulp markets, however, it now appears as though broadly reduced Chinese and European demand is contributing to further inventory builds. We expect Sept-11 pulp stats will reveal increased inventories prompting further announcements of NBSK pulp list price reductions. In-line with this we are reducing our 4Q11 NBSK pulp forecast to US\$925/mt, representing a \$65/mt decline from 3Q11 levels. We are also reducing our 2011 NBSK pulp forecast to US\$915/mt from US\$925/mt. Favourable FX movements have offset a portion of pulp list price reductions to date, however, the trend has reversed and recent volatility in CAD/USD bilateral exchange rates is too great to be counted on to offset further NBSK price drops. See page 3 for our 3Q11 results expectations – notably we expect Canfor Pulp to beat consensus EPS estimates by 40%.

Fortress Paper (FTP-TSX) - Similar to recent quarters we expect Strong Buy rated Fortress Paper's 3Q11 results to be a non-event as the market looks toward the early November commencement of dissolving pulp operations at the Thurso mill. With a recent press release indicating the final steps to DP production are underway, we discount risk associated with the project's timing and completion and no longer consider a discount to DP comps to be appropriate in valuing the Thurso mill. Therefore, we are increasing our target to \$55/share from \$50 and note our new target represents a blended 5.0x 2012 EV/EBITDA multiple. We stress that our valuation does not include provisions for additional M&A activity.

Domtar (UFS-NYSE) - Turning to Strong Buy rated Domtar, we are forecasting a modest "beat" with 3Q11 EBITDA of \$277 mln, up from \$260 mln in 2Q11 on reduced maintenance expenses and higher "cutsizes" uncoated free sheet pricing, offset somewhat by lower NBSK pulp prices. We highlight the company's economically insensitive 24% FCF yield and inexpensive valuation sporting a 7.1x 2011 P/E ratio. Despite the Attends acquisition, we expect Domtar to continue to return the vast majority of its FCF to shareholders and expect the company has been aggressive on its \$600 mln share buyback program potentially necessitating an extension before year end. We see the possibility of a share split/regular dividend hike as a potential catalyst for next spring.

Building Materials - Seasonal Lumber Trade Starts Now – With valuations close to cycle trough levels we highlight an asymmetric risk/reward payoff opportunity in the lumber sector. Specifically, Canfor (CFP-TSX, Outperform) and West Fraser (WFT-TSX, Outperform) are trading at 3.4x and 3.3x mid-cycle EV/EBITDA multiples (respectively) compared to cycle lows of 2.8x while small cap producers such as Interfor (IFP.A-TSX, Outperform) and Conifex (CFF-TSXV, Outperform) are also near trough valuations with mid-cycle EV/EBITDA multiples of 2.3x and 2.5x respectively compared to troughs of 2.2x and 2.4x respectively. These stocks traditionally have only traded materially lower than current levels when lumber prices were in cash-flow negative territory - something we do not expect to occur with the emergence of the Chinese market. Importantly, we note the past 2 seasonal rallies in lumber prices and building materials equities took place despite the US housing market failing to improve materially from recessionary lows. Furthermore, we expect lumber producers relatively pessimistic near-term outlook to lead to reduced log inventory builds this winter planting the seeds for a spring 2012 lumber price rally as spring breakup brings logging to a halt. Therefore, we encourage investors to take advantage of this opportunity and are reiterating our Outperform ratings for each of the Western Lumber producers and are holding our target prices constant.

Company	Ticker Primary	Ticker Secondary	Current Price	Target Price (6-12mo)		Div. Yield	Tot. Return To Target	Rating Old	Rating New
				Old	New				
Building Materials									
Canfor Corp.	CFP-TSX		C\$10.01	C\$16.00	C\$16.00		60%	Outperform 2	Outperform 2
Conifex Timber Inc.	CFE-TSXV		C\$7.70	C\$14.50	C\$14.50		88%	Outperform 2	Outperform 2
Interfor	IFP.A-TSX		C\$4.19	C\$7.00	C\$7.00		67%	Outperform 2	Outperform 2
Norbord Inc.	NBD-TSX		C\$8.36	C\$14.00	C\$14.00		67%	Market Perform 3	Market Perform 3
West Fraser Timber	WFT-TSX		C\$43.00	C\$65.00	C\$65.00	1%	52%	Outperform 2	Outperform 2
Pulp & Paper									
Canfor Pulp Products Inc.	CFX-TSX		C\$14.35	C\$18.50	C\$16.00	11%	23%	Outperform 2	Market Perform 3
Domtar	UFS-NYSE	UFS-TSX	US\$76.63	US\$125.00	US\$125.00	2%	64%	Strong Buy 1	Strong Buy 1
Fibrex Inc.	FBK-TSX		C\$0.80	C\$1.40	C\$1.00		25%	Market Perform 3	Market Perform 3
Fortress Paper	FTP-TSX		C\$44.44	C\$50.00	C\$55.00		24%	Strong Buy 1	Strong Buy 1
Mercer International Inc.	MERC-NASDAQ	MRI.U-TSX	US\$6.62	US\$14.00	US\$10.00		51%	Outperform 2	Market Perform 3

Raymond James Ltd.

Earnings Outlook - With pulp prices down just 3% q/q, and the Canadian dollar down slightly at US\$1.02 during 3Q11 (down from US\$1.03 in 2Q11) we expect another strong quarter from the market pulp producers in our universe, with results only modestly lower than 2Q11 on generally higher maintenance downtime. Specifically, we forecast Canfor Pulp coming in well ahead of expectations with EPS of \$0.55/share against consensus of \$0.39/share as we suspect the impact of the Northwood pulp mill recovery boiler upgrade project on 3Q11 shipments is being overestimated. Meanwhile we expect Mercer International and Fibrek's 3Q11 results to decline sequentially while falling broadly in-line with consensus. Turning to the building materials sector we see slightly higher lumber prices and a lower Canadian dollar facilitating lumber segment results similar to 2Q11. Buoyed by better than expected pulp segment results we expect Canfor Corp's consolidated 3Q11 results to top expectations. Meanwhile we see moderating log price growth driving improved performance by West Fraser's lumber segment with lower pulp prices a partial offset. With high log costs in the company's Pacific North West lumber operations being offset by strong raw log sales we expect Interfor to report results in-line with consensus. We are looking for breakeven EBITDA performance from Conifex as the company continues to ramp up operations to reach its goal of lumber segment margins in line by industry leaders by year end.

Exhibit 1: Earnings per Share Estimates and Revisions

Company	Recent Price	Q1	Q2	Q3	Q4	2011E Yr	2012E Yr	Rating	6-12 Mth Target	Rating	
BUILDING MATERIALS											
Canfor	Revised	\$10.01	\$ 0.00	\$ 0.02	\$ (0.00)	\$ 0.03	\$ 0.04	\$ 0.37	2	\$16.00	OUTPERFORM2
CFP-T	Previous		\$ -	\$ 0.02	\$ 0.04	\$ 0.10	\$ 0.16	\$ 0.62	2	\$16.00	
Interfor	Revised	\$4.19	\$ (0.01)	\$ (0.05)	\$ (0.04)	\$ 0.05	\$ (0.05)	\$ 0.27	2	\$7.00	OUTPERFORM2
IFP.A-T	Previous		\$ (0.01)	\$ (0.05)	\$ (0.02)	\$ 0.03	\$ (0.04)	\$ 0.38	2	\$7.00	
Norbord (US\$)	Revised	\$8.36	\$ (0.05)	\$ (0.13)	\$ (0.02)	\$ (0.06)	\$ (0.09)	\$ 0.55	3	\$14.00	MARKET PERFORM3
NBD-T	Previous		\$ (0.05)	\$ (0.13)	\$ 0.05	\$ 0.08	\$ (0.04)	\$ 0.78	3	\$14.00	
West Fraser	Revised	\$43.00	\$ 0.46	\$ (0.09)	\$ 0.57	\$ 0.57	\$ 1.51	\$ 3.23	2	\$65.00	OUTPERFORM2
WFT-T	Previous		\$ 0.46	\$ (0.09)	\$ 0.88	\$ 0.81	\$ 2.06	\$ 4.82	2	\$65.00	
Conifex	Revised	\$7.70	\$ (0.24)	\$ (0.24)	\$ (0.14)	\$ (0.02)	\$ (0.64)	\$ 0.42	2	\$14.50	OUTPERFORM2
CFF-V	Previous		\$ (0.24)	\$ (0.24)	\$ (0.17)	\$ (0.04)	\$ (0.69)	\$ 0.59	2	\$14.50	
PULP & PAPER											
Canfor Pulp	Revised	\$14.35	\$ 0.71	\$ 0.68	\$ 0.55	\$ 0.44	\$ 2.38	\$ 1.82	3 ↓	\$16.00 ↓	MARKET PERFORM3
CFX-T	Previous		\$ 0.71	\$ 0.68	\$ 0.49	\$ 0.57	\$ 2.45	\$ 1.81	2	\$18.50	
Domtar (US\$)	Revised	\$76.63	\$ 3.25	\$ 2.37	\$ 2.66	\$ 2.47	\$ 10.75	\$ 9.81	1	\$125.00	STRONG BUY 1
UFS-N	Previous		\$ 3.25	\$ 2.37	\$ 2.48	\$ 2.62	\$ 10.73	\$ 10.13	1	\$125.00	
Fortress Paper	Revised	\$44.44	\$ (0.42)	\$ (0.07)	\$ 0.12	\$ 0.77	\$ 0.40	\$ 7.48	1	\$55.00 ↑	STRONG BUY 1
FTP-T	Previous		\$ (0.42)	\$ (0.07)	\$ 0.27	\$ 1.06	\$ 0.85	\$ 7.29	1	\$50.00	
Mercer (US\$)	Revised	\$6.62	€ 0.52	€ 0.26	€ 0.28	€ 0.13	€ 1.19	€ 0.99	3 ↓	\$10.00 ↓	MARKET PERFORM3
MERC-Q	Previous		€ 0.52	€ 0.26	€ 0.37	€ 0.34	€ 1.48	\$ 1.40	2	\$14.00	
Fibrek	Revised	\$0.80	\$0.03	\$0.04	(\$0.00)	(\$0.03)	\$ 0.03	\$ 0.03	3	\$1.00 ↓	MARKET PERFORM3
FBK-T	Previous		\$ 0.03	\$ 0.04	\$ (0.01)	\$ -	\$ 0.06	\$ 0.04	3	\$1.40	

Source: Company Reports, Raymond James Ltd.

Exhibit 2: Earnings per Share Estimates and Revisions vs. Consensus

Company	Symbol	Recent Price	3Q11E			First Call		Prior Quarter	Prior Year
			Revised	Previous	Change	Consensus	Difference	2Q11	3Q10
BUILDING MATERIALS									
Canfor	CFP-T	\$10.01	\$ (0.00)	\$ 0.04	(\$0.04)	(\$0.06)	\$0.06	\$ 0.02	\$ 0.08
Interfor	IFP.A-T	\$4.19	\$ (0.04)	\$ (0.02)	(\$0.02)	(\$0.04)	\$0.01	\$ (0.05)	\$ (0.02)
Norbord	NBD-T	\$8.36	\$ (0.02)	\$ 0.05	(\$0.07)	(\$0.00)	(\$0.02)	\$ (0.13)	\$ (0.16)
West Fraser Timber	WFT-T	\$43.00	\$ 0.57	\$ 0.88	(\$0.31)	\$0.51	\$0.06	\$ (0.09)	\$ 1.04
Confex	CFF-V	\$7.70	\$ (0.14)	\$ (0.17)	\$0.03	(\$0.17)	\$0.03	\$ (0.24)	\$ (0.27)
PULP & PAPER									
Canfor Pulp	CFX-T	\$14.35	\$ 0.55	\$ 0.49	\$0.06	\$0.39	\$0.17	\$ 0.68	\$ 0.78
Domtar	UFS-N	\$76.63	\$ 2.66	\$ 2.48	\$0.17	\$2.48	\$0.18	\$ 2.37	\$ 4.26
Fortress Paper	FIP-T	\$44.44	\$ 0.12	\$ 0.27	(\$0.16)	\$0.02	\$0.09	\$ (0.07)	\$ 0.29
Mercer	MERC-Q	\$6.62	€0.28	€0.37	(€0.08)	€0.33	(€0.04)	€0.26	€0.82
Fibrex	FBK-T	\$0.80	(\$0.00)	\$ (0.01)	\$0.01	\$0.00	(\$0.00)	\$0.04	\$ 0.09

Source: Company Reports, Thomson FirstCall, Raymond James Ltd.

Commodities Outlook

Currency - Bilateral CAD/USD exchange rates averaged US\$1.02 for 3Q11, down slightly from US\$1.03 in 2Q11, as concerns over the European sovereign debt crisis and US economy spurred a flow of cash into the “safe haven” USD. Therefore, after averaging US\$1.05 during July the C\$ fell dramatically to as low as US\$0.97 in Sep-11 averaging US\$0.99 for the month. Given its pro-cyclical nature, we believe the C\$ will be particularly sensitive to global factors such as the size and shape of the euro-zone’s bailout fund, plans to inject liquidity into European banks and US economic data points as it continues to mirror movements in major North American equity indexes during 4Q11.

Consistent with Raymond James Ltd.’s marked to market exchange rate policy our estimates assume a \$1.00 USD/CAD, slightly above with current levels.

NBSK Pulp - NBSK pulp prices averaged US\$993/mt in 3Q11, down 3% from US\$1,027/mt in 2Q11. After peaking at an all-time high of US\$1,040/mt in Jun-11 NBSK pulp prices dropped to US\$970/mt by Sep-11 before falling a further US\$20/mt to US\$950/mt for Oct-11. These pulp price declines came amid deteriorating fundamentals with inventories rising from 26 days supply in May-11 to 34 days supply by Aug-11 and operating rates of 87% in each of Jul-11 and Aug-11, down from an average of 92% in 2Q11. In the US and European markets, we believe relatively weak demand for printing and writing paper and an uncertain macroeconomic environment are hindering demand, while the Chinese market is stressed by high inventories and reduced availability of credit. We now expect these reduced levels of demand to more than offset significant amounts of maintenance downtime associated with the Canadian Government’s Green Transformation Program and are now forecasting reduced list price announcements during the end of 2011 bringing NBSK prices as low as US\$900/mt by year-end.

Dissolving Pulp - Chinese dissolving pulp (“DP”) prices have declined over the past month with recent transactions reported at US\$1,550/mt, down from Sep-11 highs of US\$1,650/mt. We suspect these lower prices are related to reports of reduced cotton demand in China (cotton and rayon are close substitutes) with cotton consultant group Cotlook reducing China’s demand forecast by 500K mt to 9.7 mln mt. This softening demand pushed cotton futures lower, with Dec-11 contracts hitting US\$0.97/lb, down from US\$1.04/lb as recently as last week. While we acknowledge these lower cotton prices create the potential for softer rayon demand (and softer DP demand by extension) we believe Rayon capacity continues to grow in China and do not expect producers to abandon expansion plans over short term swings in pricing. Therefore, we are maintaining our US\$1,500/mt 2012 DP price assumption.

Uncoated Freesheet - Uncoated freesheet prices held relatively firm during 3Q11 with 50 lb offset rolls averaging US\$947/st, down slightly from US\$955/st in 2Q11 while 20 lb repro bond cutsize prices improving qtr/qtr to US\$1,151/st for 3Q11 from US\$1,128/st in 2Q11. As the only company in our coverage universe with exposure to UFS paper prices is Domtar, who maintains significantly greater leverage to “cutsize” grades, we expect commodity prices will represent a positive impact relative to 2Q11. Consistent with our bullish investment thesis on Domtar we believe significant consolidation in the UFS industry will support prices going forward and do not expect material reductions in either of these white paper grades through our forecast horizon. This outlook is supported by Sep-11 uncoated freesheet statistics from the Pulp and Paper Products Council (released yesterday) which revealed an operating rate of 88% (in-line the YTD average of 89%) and inventories of 611K st, flat both mth/mth and y/y. We regard the continual matching of supply and demand in North American UFS markets as evidence of supply rationalization and note this occurred once again in Sep-11 with total demand of 754K st and production of 735K st. Reflecting this view we have adjusted our 2012 UFS price forecasts for 50 lb offset rolls upward to US\$940/st (from US\$920/st) while holding our 20 lb repro bond cutsize price forecast steady at US\$1,150/st.

WSPF 2X4 - Benchmark WSPF 2X4 lumber prices averaged US\$245/mfbm in 3Q11, up 2% from US\$241/mfbm in 2Q11. During the quarter, prices peaked in mid-September on strong movements in futures markets and active buying by distributors before reports of slowing demand from China (albeit from record levels) brought prices down to current levels US\$241/mfbm subsequent to quarter-end. Looking ahead, we believe a cautious outlook on the part of lumber producers will result in the reduced accumulation of raw log inventories this winter setting the stage for a seasonal rally in lumber prices during late 2011/early 2012 as the supply response from even a modest bump in spring demand will be hindered. We also expect increased demand from China during the final months of 2011 as high summer inventories are absorbed and thinning inventories in North America to exert a positive impact on WSPF 2X4 prices. Our expectation of near-term strength in lumber prices notwithstanding, we do not believe a meaningful improvement in US residential construction will occur in 2012 and have revised our housing start forecast downward accordingly (details follow). As a result we are reducing our WSPF 2X4 lumber price forecast to US\$265/mfbm from US\$280/mfbm previously.

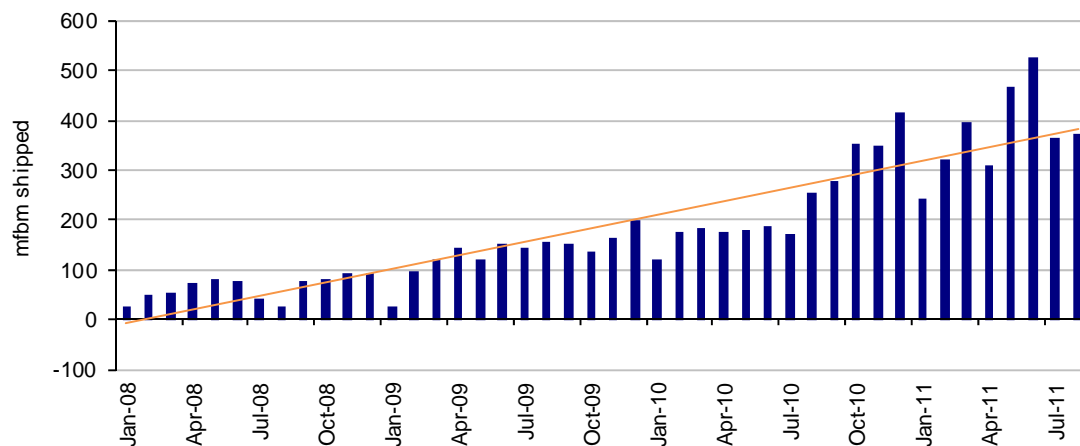
Potential upcoming changes to Southern Pine design values could have a positive impact on Canadian lumber demand & pricing - The American Lumber Standards Council met yesterday, October 20, 2011, to consider the approval of proposed changes to Southern Pine design values for potential inclusion to 2012 International Building Code. While the results of the meeting were not yet available to us it appears the proposed changes, which involve a downward rating of the structural attributes of Southern Pine species including bending, tension, and compression measures, could be significant. Initial analysis from FEA indicates the potential impact of these design changes could include the substitution out of #2 structural grade Southern Pine lumber

in favour of other species including WSPF (Canadian) lumber in truss applications. If implemented, the effect of these changes could be to decrease demand and prices of Southern Pine timber while increasing demand and prices for structural grades of all other North American softwood species – a potential benefit to Canadian lumber producers. While it is premature to draw conclusions or attempt to quantify the impact to WSPF prices, in our view, we will be closely monitoring developments on this front.

China Lumber Shipments

After record monthly shipments in each of May-11 and Jun-11, lumber shipments to China fell somewhat during July and August, while still posting impressive y/y gains of 117% and 46% respectively. We believe the lower shipments over these last two months were the result of the high shipments in May and June causing a temporary oversupply situation. We therefore regard the reductions in July and August as more the result of the time required to absorb these inventories than a reduction in Chinese lumber consumption. In our view, the rapid expansion of Canadian lumber shipments to China has resulted in a supply chain which imports as much lumber as possible without adequate information regarding on-the-ground inventories. As a result, we believe volatility in monthly shipments within the strong upward trend is to be expected. Regardless, we note July and August shipment levels were still the 5th and 6th highest monthly shipments on record and are roughly on par with the 2011 monthly average (see Exhibit 3). Therefore, we continue to regard China as an important, fast-growing market for the BC lumber producers and expect renewed demand following the absorption of high summer inventories to help push lumber prices higher during the final months of 2011.

Exhibit 3: Monthly BC Lumber Shipments to China



Note: Data originally reported in m3, conversion ratio of 1.6m3/mfbm assumed

Source: BC Stats

US Housing Market Update

US housing starts were released Wednesday morning coming in at 658k, up 15% from 572k starts in Aug-11 and above median consensus expectations of 590k. However, the bulk of the mth/mth increase was related to improved multi-family housing starts which rose to the highest level since Oct-08 at 233k reflecting increased demand for rental units while lumber-intensive single family housing starts of 425k were up just 2% mth/mth, roughly in line the YTD monthly average and yet to show a meaningful improvement from recessionary lows. Therefore, while mildly encouraging for the building materials sector, this data is not as positive as the overall starts figure suggests. In a reflection of the broader issues facing US housing, forward looking housing permits hit a 5-month low for Sep-11 likely reflecting a recent rise in foreclosure filings which is contributing to an increasing supply of unsold homes on the market. This will negatively impact the development of new homes in the near and mid-term, in our view. Excess housing supplies are currently estimated at 2.6 mln units by our RJA US Real Estate Research Team, while a further 23% of households are in a negative equity position. We believe this trend of multi-family housing construction outpacing single family activity will persist until such time as mortgage availability in the US improves. Unfortunately, this does not appear to be imminent as underwriting standards, credit qualifications and closing costs have all tightened during 2011. We stress, however, that this cautious outlook on the US housing market does not preclude the potential for a seasonal rally, in our view.

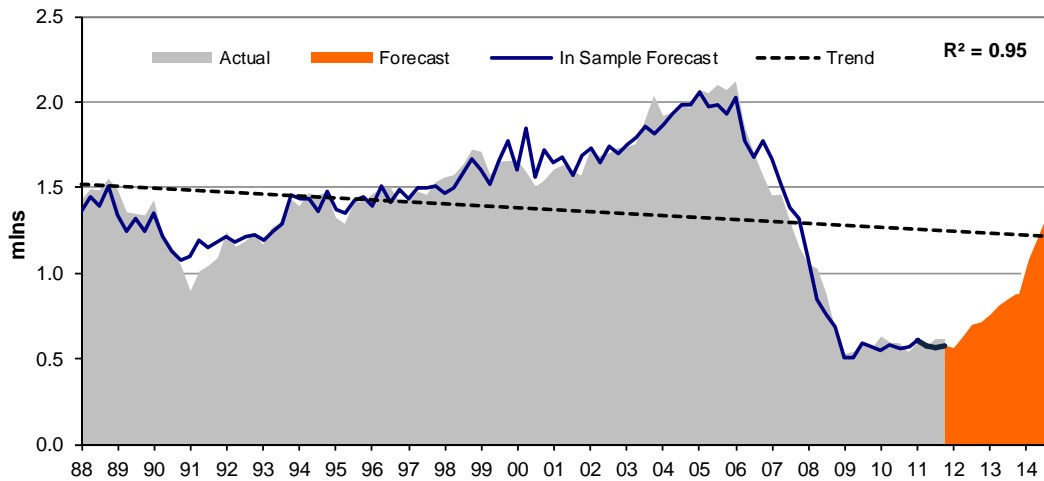
Raymond James US Housing Regression Model

Key Inputs: Inventories & Foreclosure Starts – Among other issues the US housing market continues to be plagued by large amounts of unsold housing inventories and rampant delays in the foreclosure process. A measure of these issues, referred to as “shadow inventories” (which includes repossessions, homes in the foreclosures process and seriously delinquent loans), was 4.6 mln homes as at Jun-11 and roughly on par with where the measure sat at the beginning of the year. Furthermore, the foreclosure backlog which has been largely stagnant during 2011 due to delays from the “robo-signing” scandal, investor litigation, and mortgage put-back claims is yet to show signs of improving. In fact, RealtyTrac recently reported foreclosure starts for 3Q11 increased 14% from 2Q11 but noted the timeline associated with repossessing and liquidating these homes continues to lengthen. This marked the first increase in foreclosure starts after improper paperwork slowed foreclosures processes resulting in 5 consecutive quarterly declines and is a signal lenders are now moving more aggressively down the path to foreclosure with borrowers who are behind on mortgage payments. While the processing of these distressed homes is necessary for a rebound in housing, we believe it will exacerbate the inventory backlog in the near term. In addition, with the spread in price between new and existing homes at a record 25% (compared to normalized levels of 12%) we expect demand for new homes will remain under pressure for the foreseeable future. In light of the foregoing, we no longer expect housing inventories and foreclosure starts to trend downward as significantly in 2012 or 2013 as we did previously and are adjusting the inputs in our model accordingly.

Downward revisions to forecasts - These increased assumptions on home inventories and foreclosure starts in our US housing model for 2012 and 2013 bring our housing start estimates materially lower. For 2012 we are now forecasting total US housing starts rising 12% y/y to 650K (down from our previous estimate of 700K) and then a further 27% to 820K in 2013 (down from 930K) (see Exhibit 4). We also feel it is important to note the composition of these housing starts will be weighted towards the multi-family construction segment as demand for rental units causes the growth rate of the more volatile, less lumber intensive multifamily segment to outstrip growth in demand for single family homes. Therefore, while not only lower in absolute terms, the

composition of the housing starts will be less favourable to lumber producers. Nevertheless, we highlight, with the increased role China now plays as a lumber consumer in addition to the reduced log inventories resulting from producers' pessimistic outlook means even a small increase in demand has the potential to send benchmark lumber prices significantly higher.

Exhibit 4: Raymond James US Housing Regression Model



Independent Variables	-Actuals-		---Forecast---					
	Coeff.	t-Stat	2009	2010	2011	2012	2013	2014+
Intercept	2.721	10.41						
US GDP	0.031	6.88	(0.6)	2.7	3.0	3.0	2.8	3.3
CASE SHILLER INDEX	0.005	6.89	156	158	151	149	152	154
FANNIE MAE 30 Yr MORTGAGE RATE	(0.040)	(2.21)	3.2	3.6	4.2	4.5	5.6	6.4
FORECLOSURES STARTED	(0.654)	(9.12)	1.4	1.4	1.4	1.2	1.1	0.9
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	8.8	8.1	7.5	7.0
TOTAL HOUSING INVENTORY	(0.222)	(6.36)	4.1	4.8	5.0	4.9	4.6	3.7
US Total Housing Starts (mln)			0.55	0.59	0.58	0.65	0.82	1.25
Yr/Yr % Change			-39%	7%	-1%	12%	27%	52%

Source: Raymond James Ltd.

NC 7/16 OSB

NC 7/16 OSB prices, as reported by Random Lengths averaged US\$184/msf in 3Q11, up 7% from US\$173/msf in 2Q11. Relative to lumber OSB is significantly more levered to an improvement in the US economy and housing market and does not enjoy the same benefits of increased demand from China. As a result, we do not forecast a meaningful improvement in pricing in the near-term. However, as prices continue to hover around cash-cost levels we also see downside in the commodity as limited and expect prices to hover between US\$175 and \$195 during 4Q11. We have adjusted our 2011 OSB forecast down to US\$185/msf from US\$190/msf accordingly. In addition, given our reduced expectations for the US housing market we are dropping our 2012 OSB forecast to US\$190/msf from US\$220/msf.

Exhibit 5: Raymond James Commodity Price Forecast Summary

COMMODITY/PRODUCT	Units	Current	2010 Actual	2011E Forecast Previous	% Chg	2012E Forecast Previous	% Chg
LUMBER							
WESTERN SPF 2x4	US\$/mfbm	241	255	260	260	0%	265 280 -5%
BABY SQUARES - 3 9/16"	US\$/mfbm	767	767	767	767	0%	767 767 0%
PANEL							
OSB - 7/16" NC	US\$/msf	195	219	185	190	-3%	190 220 -14%
PLYWOOD - Southern 15/32"	C\$/msf	348	307	315	300	5%	315 315 0%
PULP							
NBSK deI. U.S. NE	US\$/mt	952	960	978	1,000	-2%	925 925 0%
NBSK deI. N. Europe	US\$/mt	928	939	968	996	-3%	915 915 0%
PAPER / PACKAGING							
UFS - 50 lb offset roll	US\$/st	940	916	944	955	-1%	940 920 2%
UFS - 20lb cut size	US\$/st	1,148	1,126	1,142	1,168	-2%	1,150 1,150 0%
EXCHANGE RATES							
US\$/C\$		0.98	0.97	1.00	1.03	-3%	1.03 1.02 1%
US\$/€		1.37	1.33	1.37	1.40	-2%	1.44 1.37 5%

Source: Random Lengths, Madison's, Pulp & Paper Week, FOEX, Bloomberg, Raymond James Ltd.

Exhibit 6: Raymond James Paper & Forest Products 3Q11 Earnings Calendar

	Symbol	3Q11 Earnings Release	Timing	Conference Call	Details
Monday, October 24, 2011					
Canfor Pulp	CFX-T	✓	After Mkt		
West Fraser	WFT-T	✓	After Mkt		
Tuesday, October 25, 2011					
Canfor Pulp	CFX-T			✓	11am EST, 1-866-223-7781
West Fraser	WFT-T			✓	12pm EST, 1-877-440-9795
Thursday, October 27, 2011					
Domtar	UFS-N	✓	Before Mkt	✓	10am EST, 1-866-321-8231
Canfor	CFP-T	✓	After Mkt		
Friday, October 28, 2011					
Canfor	CFP-T			✓	11am EST, 1-866-226-1792
Norbord	NBD-T	✓	Before Mkt	✓	TBA
Wednesday, November 2, 2011					
Interfor	IFP.A-T	✓	After Mkt		
Fibrex	FBK-T	✓	After Mkt		
Thursday, November 3, 2011					
Interfor	IFP.A-T			✓	11am EST, 1-866-323-8540
Fibrex	FBK-T			✓	10am EST (tentative), Number TBA
Mercer	MERC-Q	✓	After Mkt		
Friday, November 4, 2011					
Mercer	MERC-Q			✓	TBA
Monday, November 7, 2011					
Fortress Paper	FTP-T	✓	After Mkt		
Tuesday, November 8, 2011					
Fortress Paper	FTP-T			✓	TBA
Wednesday, November 22, 2011					
Conifex	CFF-V	✓			
Thursday, November 23, 2011					
Conifex	CFF-V			✓	TBA

Source: Company news releases

Estimated earnings release and conference call times/details are subject to change.

Source: Company News Releases

Forest Products

Canfor Corp. CFP-TSX

Rating: Outperform

Current Price(Oct-19-11)	C\$10.01	Target Price (6-12 mos)	C\$16.00
52-Week Range	C\$15.48 - C\$8.74	Total Return to Target	60%
Market Capitalization (mln)	C\$1,428	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	142.6	Current Net Debt (mln)	C\$97
Average Daily Volume (000s)	216	Enterprise Value (mln)	C\$1,429

EPS	1Q	2Q	3Q	4Q	Full	Revenue	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$(0.05)	C\$0.20	C\$0.08	C\$0.09	C\$0.32	C\$2,430	C\$323	NA	4.4x
Old 2011E	0.00A	0.02A	0.04	0.10	0.16	2,593	304		
New 2011E	0.00A	0.02A	0.00	0.03	0.04	2,499	275	NA	5.2x
Old 2012E	NA	NA	NA	NA	0.62	3,071	395		
New 2012E	0.12	0.16	0.06	0.03	0.37	2,880	338	16.3x	4.2x

	Lumber	Pulp
	(US\$/mfbm)	(US\$/mt)
2010A	US\$255	US\$960
Old 2011E	265	1,000
New 2011E	260	978
Old 2012E	290	925
New 2012E	265	915

Source: Raymond James Ltd., Thomson One

Conifex Timber Inc. CFF-TSXV

Rating: Outperform

Current Price(Oct-19-11)	C\$7.70	Target Price (6-12 mos)	C\$14.50
52-Week Range	C\$12.00 - C\$6.43	Total Return to Target	88%
Market Capitalization (mln)	C\$130	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	16.9	Current Net Debt (mln)	C\$58
Average Daily Volume (000s)	5	Enterprise Value (mln)	C\$188

EPS	1Q	2Q	3Q	4Q	Full	Revenues	EBITDA	P/E	EV/EBITDA
	Mar	Jun	Sep	Dec	Year	(mln)	(mln)		
2010A	C\$(0.15)	C\$(0.23)	C\$(0.27)	C\$(0.37)	C\$(1.02)	C\$57	C\$(6)	NA	NA
Old 2011E	(0.24)A	(0.24)A	(0.17)	(0.04)	(0.69)	119	(1)		
New 2011E	(0.24)A	(0.24)A	(0.14)	(0.02)	(0.64)	120	0	NA	NA
Old 2012E	(0.03)	0.12	0.17	0.33	0.59	179	22		
New 2012E	0.14	0.16	0.06	0.06	0.42	177	19	14.7x	10.1x

	Lumber	Net
	(US\$/mfbm)	Debt (%)
2010A	US\$255	NA
Old 2011E	260	28%
New 2011E	260	31%
Old 2012E	280	NA
New 2012E	265	NA

Source: Raymond James Ltd., Thomson One

Interfor IFP.A-TSXRating: **Outperform**

Current Price(Oct-19-11)	C\$4.19	Target Price (6-12 mos)	C\$7.00
52-Week Range	C\$7.49 - C\$3.50	Total Return to Target	67%
Market Capitalization (mln)	C\$234	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	55.9	Current Net Debt (mln)	C\$93
Average Daily Volume (000s)	63	Enterprise Value (mln)	C\$302

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	C\$(0.05)	C\$(0.01)	C\$(0.02)	C\$0.01	C\$(0.06)	C\$626	C\$48	NA	6.3x
Old 2011E	(0.01)A	(0.05)A	(0.02)	0.03	(0.04)	692	55		
New 2011E	(0.01)A	(0.05)A	(0.04)	0.05	(0.05)	656	55	NA	5.5x
Old 2012E	NA	NA	NA	NA	0.38	643	85		
New 2012E	0.07	0.12	0.01	0.07	0.27	666	72	15.5x	4.2x

**Lumber
(US\$/mfbm)**

2010A	US\$255
Old 2011E	265
New 2011E	260
Old 2012E	290
New 2012E	265

Source: Raymond James Ltd., Thomson One

Norbord Inc. NBD-TSXRating: **Market Perform**

Current Price(Oct-19-11)	C\$8.36	Target Price (6-12 mos)	C\$14.00
52-Week Range	C\$16.70 - C\$7.48	Total Return to Target	67%
Market Capitalization (mln)	C\$364	Dividend/Yield	C\$0.00/0.0%
Shares Outstanding (mln, f.d.)	43.5	Current Net Debt (mln)	C\$373
Average Daily Volume (000s)	75	Enterprise Value (mln)	C\$731

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	C\$(0.12)	C\$0.81	C\$(0.16)	C\$(0.05)	C\$0.49	C\$892	C\$105	NA	7.0x
Old 2011E	(0.05)A	(0.13)A	0.05	0.08	(0.04)	981	68		
New 2011E	(0.05)A	(0.13)A	(0.02)	(0.06)	(0.09)	971	55	NA	13.3x
Old 2012E	NA	NA	NA	NA	0.78	975	132		
New 2012E	0.06	(0.01)	0.37	0.13	0.55	1,085	105	15.3x	7.0x

**OSB
(US\$/msf) Plywood
(C\$/msf)**

2010A	US\$219	299
Old 2011E	190	265
New 2011E	185	315
Old 2012E	230	315
New 2012E	190	315

Source: Raymond James Ltd., Thomson One

West Fraser Timber WFT-TSX**Rating: Outperform**

Current Price(Oct-19-11)	C\$43.00	Target Price (6-12 mos)	C\$65.00
52-Week Range	C\$62.86 - C\$34.90	Total Return to Target	52%
Market Capitalization (mln)	C\$1,842	Dividend/Yield	C\$0.56/1.3%
Shares Outstanding (mln, f.d.)	42.8	Current Net Debt (mln)	C\$152
Average Daily Volume (000s)	87	Enterprise Value (mln)	C\$1,865

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	C\$0.79	C\$1.44	C\$1.04	C\$0.89	C\$4.16	C\$2,928	C\$428	10.3x	4.4x
Old 2011E	0.46A	(0.09)	0.88	0.81	2.06	2,840	347		
New 2011E	0.46A	(0.09)A	0.57	0.57	1.51	2,889	296	24.7x	6.3x
Old 2012E	NA	NA	NA	NA	4.82	3,068	537		
New 2012E	1.16	0.65	0.76	0.66	3.23	2,957	349	13.3x	5.3x

	Lumber (US\$/mfbm)	Pulp (US\$/mt)
2010A	US\$255	US\$960
Old 2011E	265	1,000
New 2011E	260	978
Old 2012E	290	925
New 2012E	265	915

Source: Raymond James Ltd., Thomson One

Canfor Pulp Products Inc. CFX-TSX

Rating Old: Outperform

Rating New: Market Perform

Current Price(Oct-19-11)	C\$14.35	Target Price (6-12 mos)	Old: C\$18.50 New: C\$16.00
52-Week Range	C\$19.52 - C\$11.23	Total Return to Target	23%
Market Capitalization (mln)	C\$1,023	Dividend/Yield	C\$1.60/11.4%
Shares Outstanding (mln, f.d.)	71.3	Current Net Debt (mln)	C\$80
Average Daily Volume (000s)	100	Enterprise Value (mln)	C\$905

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	C\$0.57	C\$0.88	C\$0.78	C\$0.68	C\$2.91	C\$1,001	C\$230	4.9x	3.9x
Old 2011E	0.71A	0.68A	0.49	0.57	2.45	927	249		
New 2011E	0.71A	0.68A	0.55	0.44	2.38	895	234	6.0x	3.9x
Old 2012E	NA	NA	NA	NA	1.81	956	220		
New 2012E	0.41	0.50	0.49	0.42	1.82	935	217	7.9x	4.2x

	Pulp (US\$/mt)
2010A	C\$960
Old 2011E	1,000
New 2011E	978
Old 2012E	925
New 2012E	915

Source: Raymond James Ltd., Thomson One

Domtar UFS-NYSE**Rating: Strong Buy**

Current Price(Oct-19-11)	US\$76.63	Target Price (6-12 m)	US\$125.00
52-Week Range	US\$105.82 - US\$62.28	Total Return to Target	64%
Market Capitalization (mln)	US\$3,081	Dividend/Yield	US\$1.40/2.0%
Shares Outstanding (mln, f.d.)	40.2	Current Net Debt (mln)	US\$109
Average Daily Volume (000s)	793	Enterprise Value (mln)	US\$2,477

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	US\$1.59	US\$2.67	US\$4.26	US\$2.41	US\$10.93	US\$5,866	US\$1,087	7.0x	2.3x
Old 2011E	3.25A	2.37A	2.48	2.62	10.73	5,610	1,139		
New 2011E	3.25A	2.37A	2.66	2.47	10.75	5,526	1,110	7.1x	2.2x
Old 2012E	NA	NA	NA	NA	10.13	5,580	1,025		
New 2012E	1.67	2.73	2.94	2.46	9.81	5,577	1,016	7.8x	2.4x

	Pulp (US\$/mt)	UFS (US\$/st)
2010A	US\$960	US\$916
Old 2011E	1,000	955
New 2011E	978	944
Old 2012E	925	920
New 2012E	915	940

Source: Raymond James Ltd., Thomson One

Fibretek Inc. FBK-TSX**Rating: Market Perform**

Current Price(Oct-19-11)	C\$0.80	Target Price (6-12 mos)	Old: C\$1.40	New: C\$1.00
52-Week Range	C\$1.70 - C\$0.63	Total Return to Target	25%	
Market Capitalization (mln)	C\$104	Dividend/Yield	C\$0.00/0.0%	
Units Outstanding (mln, f.d.)	130.1	Current Net Debt (mln)	C\$107	
Average Daily Volume (000s)	59	Enterprise Value (mln)	C\$181	

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	C\$(0.01)	C\$0.11	C\$0.09	C\$(0.05)	C\$0.14	C\$557	C\$62	11.7x	2.9x
Old 2011E	0.03A	0.04A	(0.01)	0.00	0.06	527	57		
New 2011E	0.03A	0.04A	0.00	(0.03)	0.03	528	52	19.0x	3.4x
Old 2012E	NA	NA	NA	NA	0.04	496	50		
New 2012E	0.03	(0.01)	0.00	0.00	0.03	530	50	NA	3.6x

	Pulp (US\$/mt)
2010A	US\$960
Old 2011E	1,000
New 2011E	978
Old 2012E	925
New 2012E	915

Source: Raymond James Ltd., Thomson One

Fortress Paper FTP-TSXRating: **Strong Buy**

Current Price(Oct-19-11)	C\$44.44	Target Price (6-12 mos)	Old: C\$50.00	New: C\$55.00
52-Week Range	C\$63.15 - C\$24.00	Total Return to Target	24%	
Market Capitalization (mln)	C\$675	Dividend/Yield	C\$0.00/0.0%	
Shares Outstanding (mln, f.d.)	15.2	Current Net Debt (mln)	C\$55	
Average Daily Volume (000s)	52	Enterprise Value (mln)	C\$730	

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	C\$0.30	C\$0.37	C\$0.29	C\$(0.06)	C\$0.90	C\$281	C\$26	NA	NA
Old 2011E	(0.42)A	(0.07)A	0.27	1.06	0.85	320	34		
New 2011E	(0.42)A	(0.07)A	0.12	0.77	0.40	313	28	34.8x	14.8x
Old 2012E	NA	NA	NA	NA	7.29	448	169		
New 2012E	1.76	1.88	1.90	1.95	7.48	473	167	5.9x	4.4x

Source: Raymond James Ltd., Thomson One

Mercer International Inc. MERC-NASDAQ

Rating Old: Outperform

Rating New: **Market Perform**

Current Price(Oct-19-11)	US\$6.62	Target Price (6-12 mos)	Old: US\$14.00	New: US\$10.00
52-Week Range	US\$15.27 - US\$5.14	Total Return to Target	51%	
Market Capitalization (mln)	US\$379	Dividend/Yield	US\$0.00/0.0%	
Shares Outstanding (mln, f.d.)	57.2	Current Net Debt (mln)	US\$806	
Average Daily Volume (000s)	326	Enterprise Value (mln)	US\$1,038	

EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenue (mln)	EBITDA (mln)	P/E	EV/EBITDA
2010A	€(0.21)	€0.23	€0.82	€0.63	€1.47	€901	€224	3.3x	3.4x
Old 2011E	0.52A	0.26A	0.37	0.34	1.48	893	203		
New 2011E	0.52A	0.26A	0.28	0.13	1.19	866	184	4.1x	4.1x
Old 2012E	NA	NA	NA	NA	1.40	849	220		
New 2012E	0.23	0.27	0.24	0.25	0.99	834	191	4.9x	4.0x

	Pulp (US\$/mt)	Pulp (Eur.Del) US\$/mt
2010A	US\$960	939
Old 2011E	1,000	995
New 2011E	978	968
Old 2012E	925	915
New 2012E	915	905

Source: Raymond James Ltd., Thomson One

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	Coverage Universe Rating Distribution			Investment Banking Distribution		
	RJL	RJA	RJ LatAm	RJL	RJA	RJ LatAm
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Market Perform (Hold)	25%	37%	55%	31%	5%	3%
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