

## Forest Products

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### Pulp & Paper

#### Pulp & Paper: Sep-11 Pulp Stats Better than Expected; Near-term Outlook Still Challenged

**We believe pulp prices will be under pressure in coming months with markets coming back into balance early next spring** - Where we previously expected a heavy fall maintenance season to balance markets; we now believe a recovery in NBSK pulp prices will be pushed out for 3-6 months. This backstops our Market Perform rating on the pulp names as we do not expect the equities to appreciate in the face of falling commodity prices in the near-term. We expect Chinese demand to improve after the Chinese New Year in early Feb-11 helping balance global NBSK pulp markets by the spring. Longer term, we maintain our bullish long-term investment thesis on the pulp sector which is predicated on long-term reductions in global NBSK pulp capacity and the increased usage of paper products per capita in developing countries. We believe the factors that pushed NBSK pulp prices to a record US\$1,040/mt in Jun-11 still exist and do not forecast extended periods of low prices that have traditionally characterized pulp down-cycles.

**Sep-11 pulp stats improve but inventories still on the high side of balanced** – The Pulp and Paper Product Council's Sep-11 pulp stats revealed a 99% NBSK operating (key grade for Canadian producers) as global inventories fell from 34 days to 32 days, while still remaining above balanced levels of ~30 days. Geographically, Sep-11 shipments to North America and Western Europe were relatively weak falling 1.1% and 10.3% respectively y/y while YTD shipments to each of these markets are down 5.5 % and 6.4% respectively. Shipments to China displayed unexpected strength, however, improving 35% y/y for Sep-11 and are up 57% YTD.

**Backward looking pulp stats do not necessarily reflect the near-term outlook** – We acknowledge the Sept stats are stronger than we expected given anecdotal reports and analysis of news flow, however, they do not alter our challenged near-term view. Specifically, recent data from the American Forest & Paper Association revealed Sep-11 shipments of printing and writing papers are down 8% y/y and reports out of Asia indicate other softwood pulp grades (radiata pine pulp from Chile) are seeing heavy price drops in China of as much as \$60/mt. Anecdotally, we understand a rebound in Chinese pulp demand that was expected after the October 1 national holiday did not materialize as buyers with ample inventories continue to wait for additional price reductions. Thus, as we head into a seasonally slow period for demand in December, where inventories are typically sold off prior to year-ends, we see NBSK pulp pricing falling as low as US\$880-900/mt before markets rebalance in early spring.

Company	Ticker Primary	Ticker Secondary	Current Price	Rating
<b>Pulp &amp; Paper</b>				
Canfor Pulp Products Inc.	CFX-TSX		C\$14.40	Market Perform 3
Domtar	UFS-NYSE	UFS-TSX	US\$76.83	Strong Buy 1
Fibrex Inc.	FBK-TSX		C\$0.85	Market Perform 3
Fortress Paper	FTP-TSX		C\$42.42	Strong Buy 1
Mercer International Inc.	MERC-NASDAQ	MRI.U-TSX	US\$6.65	Market Perform 3

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	Coverage Universe Rating Distribution			Investment Banking Distribution		
	RJL	RJA	RJ LatAm	RJL	RJA	RJ LatAm
<b>Strong Buy and Outperform (Buy)</b>	74%	58%	38%	56%	15%	33%
<b>Market Perform (Hold)</b>	26%	37%	55%	30%	5%	3%
<b>Underperform (Sell)</b>		5%	8%		5%	0%

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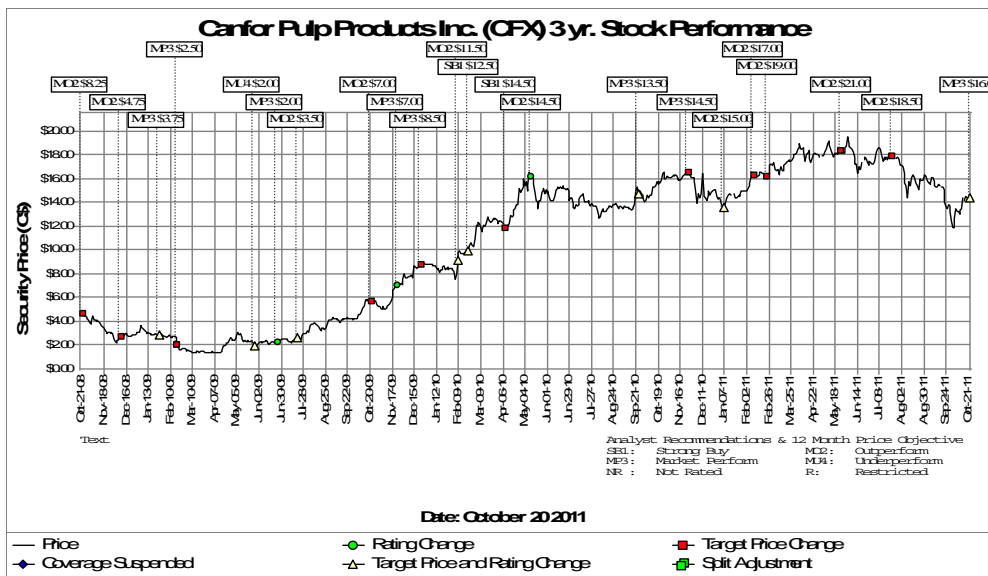
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Mercer International Inc.	Raymond James Ltd. makes a market in the securities of Mercer International Inc..

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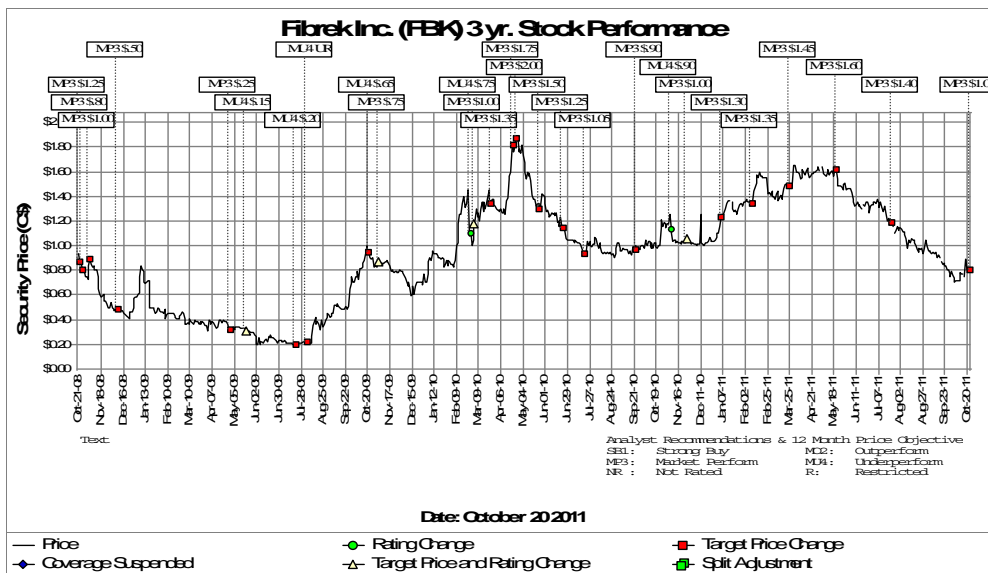
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**Target Prices:** The information below indicates target price and rating changes for the subject companies included in this research.



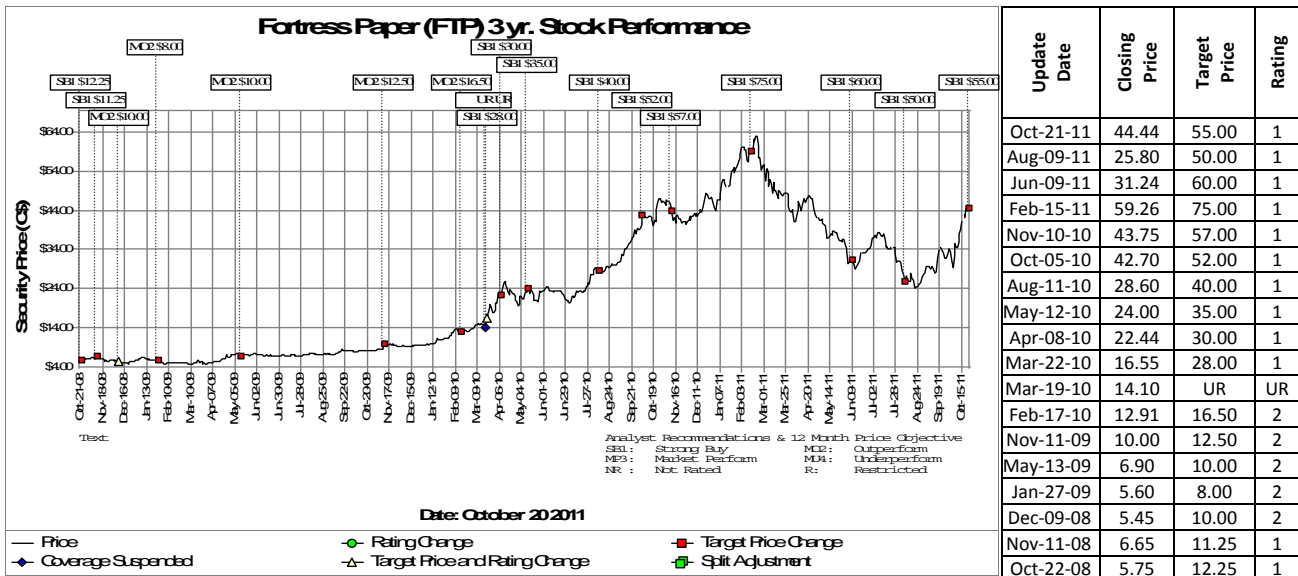
Update Date	Closing Price	Target Price	Rating
Oct-21-11	14.35	16.00	3
Jul-22-11	17.97	18.50	2
May-24-11	18.38	21.00	2
Feb-24-11	16.17	19.00	2
Feb-09-11	16.35	17.00	2
Jan-07-11	13.61	15.00	2
Nov-24-10	16.54	14.50	3
Sep-23-10	14.68	13.50	3
May-11-10	16.20	14.50	2
Apr-08-10	11.90	14.50	1
Feb-22-10	9.90	12.50	1
Feb-08-10	9.10	11.50	2
Dec-23-09	8.81	8.50	3
Nov-24-09	7.10	7.00	3
Oct-21-09	5.69	7.00	2
Jul-21-09	2.66	3.50	2
Jun-24-09	2.26	2.00	3
May-27-09	1.90	2.00	4

**Valuation Methodology:** Our valuation methodology for Canfor Pulp includes a comparison of EV/EBITDA multiple relative to appropriate industry competitors.

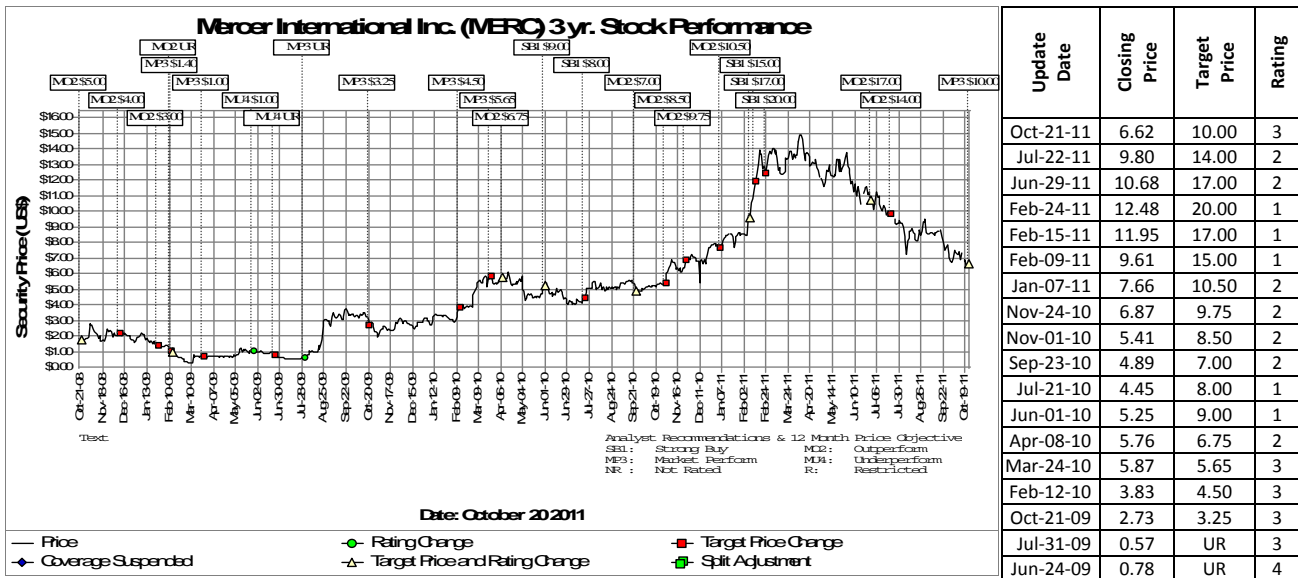


Update Date	Closing Price	Target Price	Rating
Oct-21-11	0.80	1.00	3
Jul-22-11	1.19	1.40	3
May-19-11	1.62	1.60	3
Mar-25-11	1.48	1.45	3
Feb-09-11	1.34	1.35	3
Jan-07-11	1.23	1.30	3
Nov-24-10	1.06	1.00	3
Nov-05-10	1.13	0.90	4
Sep-23-10	0.97	0.90	3
Jul-21-10	0.94	1.05	3
Jun-23-10	1.14	1.25	3
May-25-10	1.30	1.50	3
Apr-26-10	1.87	2.00	3
Apr-21-10	1.82	1.75	3
Mar-24-10	1.34	1.35	3
Mar-03-10	1.18	1.00	3
Feb-26-10	1.10	0.75	4
Nov-03-09	0.87	0.75	3

**Valuation Methodology:** Our valuation methodology for Fibretek includes a comparison of EV/EBITDA multiple relative to appropriate industry competitors.



**Valuation Methodology:** We value Fortress Paper by Discounted Cash Flow Valuation (DCF) taking into account the company's growth potential and key commodity price assumptions.



**Valuation Methodology:** Our valuation methodology for Mercer International includes a comparison of EV/EBITDA multiple relative to appropriate industry competitors.



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