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# DB Paper & Forest Products

## "Terremoto": Chilean Pulp Industry Update

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### Chilean Pulp Industry Update

Even as aftershocks continue to rattle Chile, we are attempting to sort out details on the country's battered forest products sector. Chile produces nearly 5MM mtons/yr of market pulp, roughly 8% of world supply. Nearly 80% that capacity is located with 100-150 miles of Concepción. Based on conversations with pulp brokers, Chilean industry experts and others, we've put together what we have learned and our thoughts on the impact to the global pulp mkt.

### All major pulp mills remain down

Optimistic reports suggest that mills will be out for 30 days. More cautious assessments point to 60-90 days. Aftershocks could easily push the restarts back even further if firms are forced to redo partially-completed inspection regimes. Reports earlier this week suggested that electricity has just been restored at some the largest mill sites. If the entire Chilean industry is out for just 2 months, an optimistic assessment, this implies a loss of 800,000/mtons.

### Infrastructure reports are mixed

Clean-up efforts at some of the ports appear to be moving quickly. At the same time, rail-lines between some of the largest pulp mills and the ports have been damaged. This is apt to push in-bound and out-bound freight onto roads & bridges (also damaged). On a visit to southern Chile last week, we saw very tight supplies of diesel & gasoline. First-hand accounts this week suggest that the fuel situation is returning to normal.

### Near term pulp price expectations are mixed

Some analysts are predicting modest gains of only \$30-40/mton (3-5% increase). On the other extreme, some contacts in the pulp brokerage community are pointing to April list price increases of as much as \$80-100/mton (9-11% increase). Our own expectation is for April hikes in the \$60/mton range.

**DB will be hosting its annual Latin American Forest Products & Packaging tour on March 22-26th. Our trip will start in Brazil and move onto to Santiago later in the week. Seats are still available for qualified investor clients.**

## Industry Update

### Top picks

International Paper (IP.N),USD25.11	Buy
Glatfelter (GLT.N),USD14.70	Buy

### Companies featured

International Paper (IP.N),USD25.11	Buy		
2009A	2010E	2011E	
EPS (USD)	0.89	1.30	1.65
P/E (x)	18.4	19.3	15.2
EV/EBITDA (x)	5.1	5.6	4.9
<b>Glatfelter (GLT.N),USD14.70</b>	<b>Buy</b>		
2009A	2010E	2011E	
EPS (USD)	0.64	0.95	1.35
P/E (x)	15.0	15.5	10.9
EV/EBITDA (x)	4.9	4.6	3.8
<b>Domtar (UFS.N),USD60.80</b>	<b>Hold</b>		
2009A	2010E	2011E	
EPS (USD)	1.11	3.25	2.75
P/E (x)	24.3	18.7	22.1
EV/EBITDA (x)	4.0	4.9	4.8
<b>Wausau Paper Corp (WPP.N),USD9.20</b>	<b>Buy</b>		
2009A	2010E	2011E	
EPS (USD)	0.59	0.65	0.90
P/E (x)	14.5	14.2	10.2
EV/EBITDA (x)	4.8	4.6	3.5
<b>Weyerhaeuser (WY.N),USD43.00</b>	<b>Hold</b>		
2009A	2010E	2011E	
EPS (USD)	-2.05	-1.00	0.25
P/E (x)	-	-	168.8
EV/EBITDA (x)	73.0	25.3	14.4

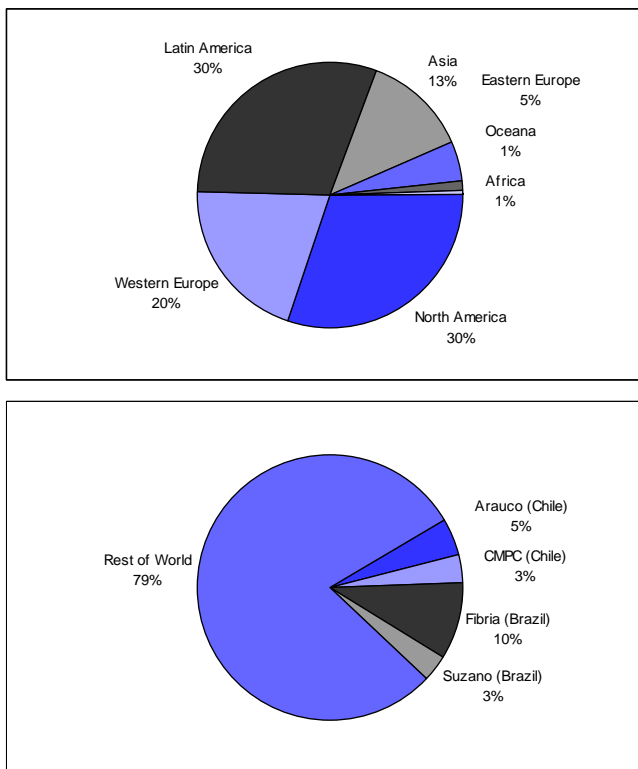
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# “Terremoto”: Chilean Pulp Industry Update

Even as aftershocks continue to rattle Chile, we are attempting to sort out details on the country’s battered forest products sector. Most news reports have focused on the badly damaged city of Concepción – located just south of the earthquake epicenter. Concepción is the center of the Chilean forest products sector. As reported in earlier notes, Chile produces nearly 5MM mtons/yr of market pulp, roughly 8% of world supply. Nearly 80% that capacity is located with 100-150 miles of Concepción (see figure 2 below).

**Figure 1: Global Pulp Capacity Share by Region/Company**



**Figure 2: Chile Pulp Mill Locations**



Source: Deutsche Bank, RISI & Company Filings  
 \* Chart Includes BSK & BHK (52MM tpy) Capacity as reported by RISI  
 \* We estimate global market pulp capacity (BSK, BHK & USK) to be ~55MM tpy

**Reports out of sector remain spotty.** However, based on conversations with pulp brokers, Chilean industry experts and others, here is what we have gleaned:

- 1) All major pulp mills remain down.** The most optimistic reports suggest that mills will be out for 30 days. More cautious assessments point to 60-90 days. Aftershocks like Thursday’s 7.2 quake could easily push the restarts back even further if firms are forced to redo partially-completed inspection regimes. Careful inspection will be required as companies like Arauco and CMPC prepare to large & potentially-dangerous pieces of equipment like digester vessels and recovery boilers. Reports earlier this week suggested that electricity has just been restored

at some the largest mill sites. If the entire Chilean industry is out for just 2 months, this implies a loss of 800,000/mtons.

- 2) **The restart at other mills will be even more complicated.** For example, Arauco's 355K Constitucion mill (located on the coast north of Concepcion) was reported flooded by the tsunami. Salt, sand and other debris will force a more complex cleaning and repair. We've heard estimates of 4-6 months for repairs at the Constitucion mill. We wouldn't be surprised to see it take even longer.
- 3) **Infrastructure reports are mixed.** Clean-up efforts at some of the ports appear to be moving quickly. At the same time, rail-lines between some of the largest pulp mills and the ports have been damaged. This is apt to push in-bound and out-bound freight onto roads & bridges (also damaged). On a visit to southern Chile last week, we saw very tight supplies of diesel & gasoline. First-hand accounts this week suggest that the fuel situation is returning to normal.

**Trade reports suggest that other key pulp export ports such as San Vicente and Coronel were also damaged. Lirquén port, the largest point of export for market pulp, is reported to have resumed operations.**

**Figure 3: Image of Talcahuano port damage**

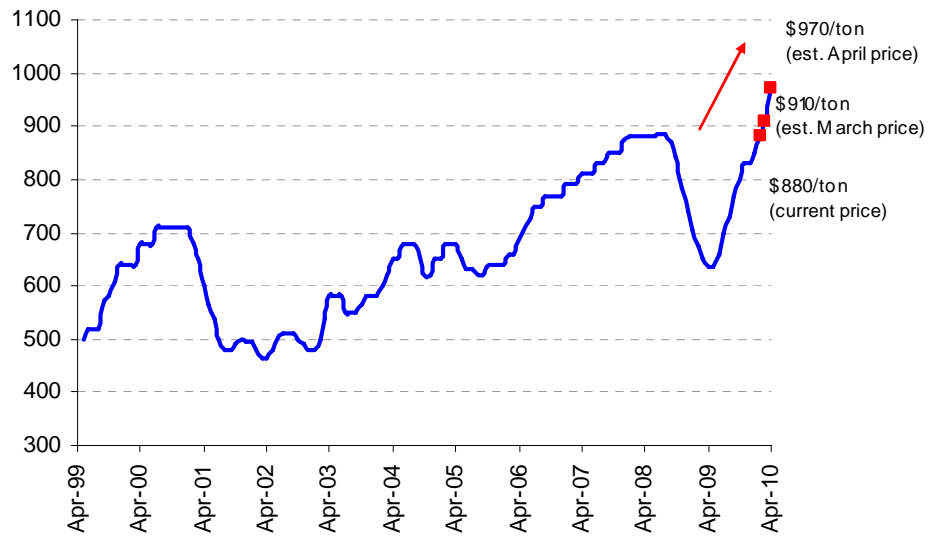
*Image taken a few days after initial earthquake*



Source: Getty Images

- 4) **Spot prices for market pulp have reportedly risen.** Reports of prospective April initiatives vary. Some analysts are predicting modest gains of only \$30-40/mton. On the other extreme, some contacts in the pulp brokerage community are pointing to April list price increases of as much as \$80-100/mton. Our own expectation is for April hikes in the \$60/mton range.

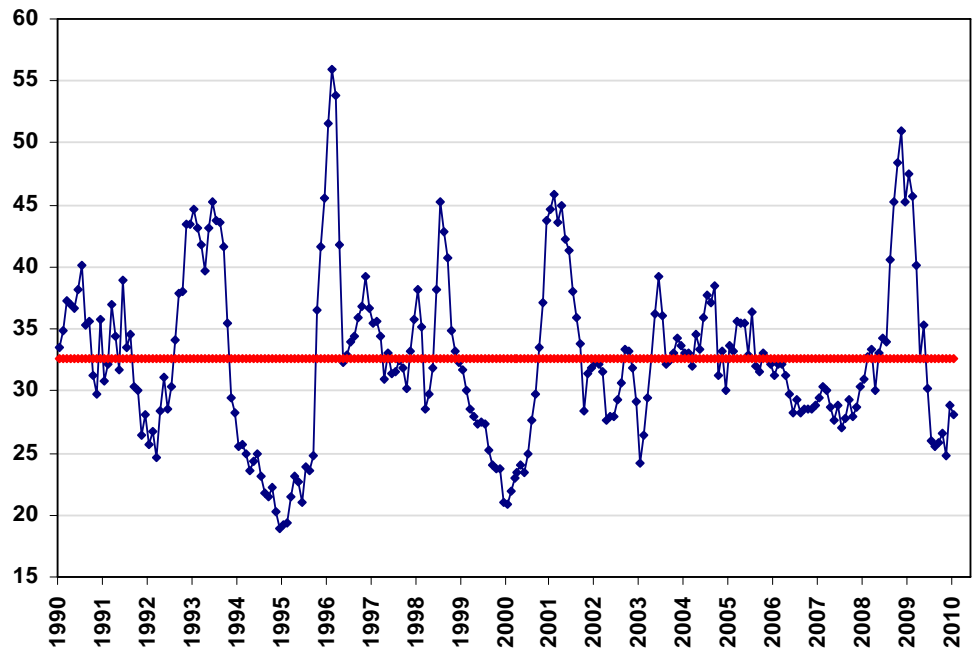
**Figure 3: NA Market Pulp (NBSK) USD/mton**



Source: Deutsche Bank and RISI  
 \* March estimate is for current price hike initiatives to be implemented  
 \*\* April estimate is DB's assumption

The impact of the Chilean earthquake on the global pulp market is being exacerbated by a Finnish dockworkers strike (which has shut down Finnish pulp shipments and is beginning to idle Finnish pulp mills) as well as tight wood supplies in the southern US. When coupled with lean pulp & paper inventories in many parts of the world as well as signs of a global economic recovery, it suggests that the near-term impact on pulp (and paper) prices could be substantial. We think pulp prices are almost certain to breach \$1000/mton for the first time in history and we believe the impact may be felt for as much as 6 months. With pulp supplies tight and prices at record levels, we think global paper prices must rise.

**Figure 4: Market Pulp – Days of Supply as of January 2010 – Historically Low**



Source: Deutsche Bank, RISI, PPPC  
 \* Includes compiled data for 20 countries

- **Who is impacted?**

Among our coverage, Weyerhaeuser, International Paper & Domtar have exposure to market pulp. Higher paper prices would also benefit International Paper & Domtar, the number 1 and 2 uncoated free sheet producers in North America.

**Figure 5: Leading Market Pulp Producers and Earnings Leverage**

Company	mtpy	EPS Sensitivity for price change per \$50	Tons Per \$MM Of Market Equity
Weyerhaeuser	1,800,000	\$0.26	197
Domtar *	1,700,000	\$1.18	635
International Paper **	1,465,000	\$0.11	137

Source: Deutsche Bank estimates, company filings

\* Includes Plymouth conversion

\*\* Includes 450K of outside NA capacity

**\* DB will be hosting its annual Latin American Forest Products & Packaging tour on March 22-26th. Our trip will start in Brazil and move onto to Santiago later in the week. Seats are still available for qualified investor clients \***

# Appendix 1

## Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
International Paper	IP.N	25.11 (USD) 10 Mar 10	1,2,6,7,8,14,15,17
Glatfelter	GLT.N	14.70 (USD) 10 Mar 10	2,8,14
Domtar	UFS.N	60.80 (USD) 10 Mar 10	1,2,6,7,8,14
Wausau Paper Corp	WPP.N	9.20 (USD) 10 Mar 10	2
Weyerhaeuser	WY.N	43.00 (USD) 10 Mar 10	2,6,7,8,14,15,17

\*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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### Historical recommendations and target price: International Paper (IP.N)

(as of 3/10/2010)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

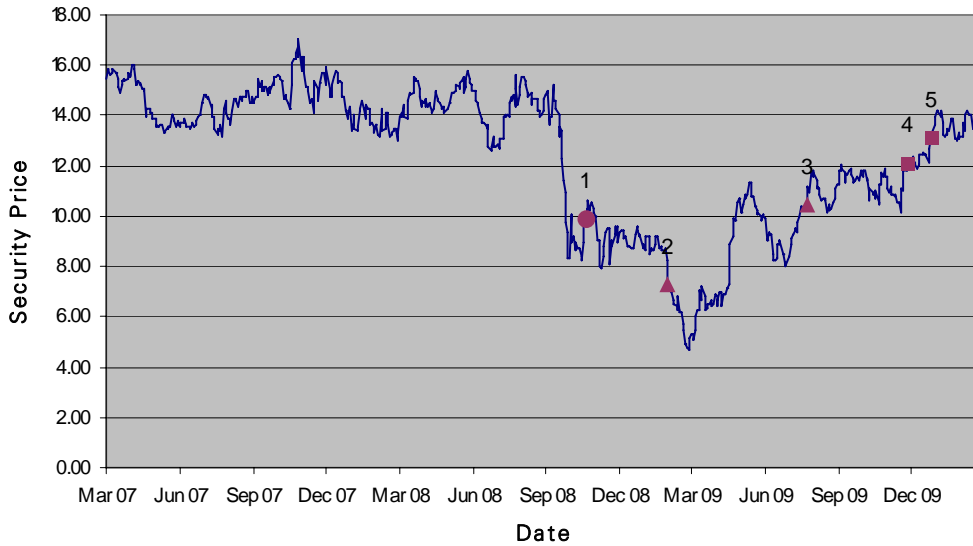
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	2/7/2008:	Buy, Target Price Change USD40.00	6.	5/1/2009:	Buy, Target Price Change USD16.00
2.	8/29/2008:	Downgrade to Hold, Target Price Change USD30.00	7.	5/12/2009:	Downgrade to Hold, USD16.00
3.	10/30/2008:	Hold, Target Price Change USD16.00	8.	7/21/2009:	Upgrade to Buy, Target Price Change USD24.00
4.	1/30/2009:	Hold, Target Price Change USD11.00	9.	8/27/2009:	Buy, Target Price Change USD28.00
5.	4/14/2009:	Upgrade to Buy, USD11.00	10.	12/20/2009:	Buy, Target Price Change USD32.00

**Historical recommendations and target price: Glatfelter (GLT.N)**

(as of 3/10/2010)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

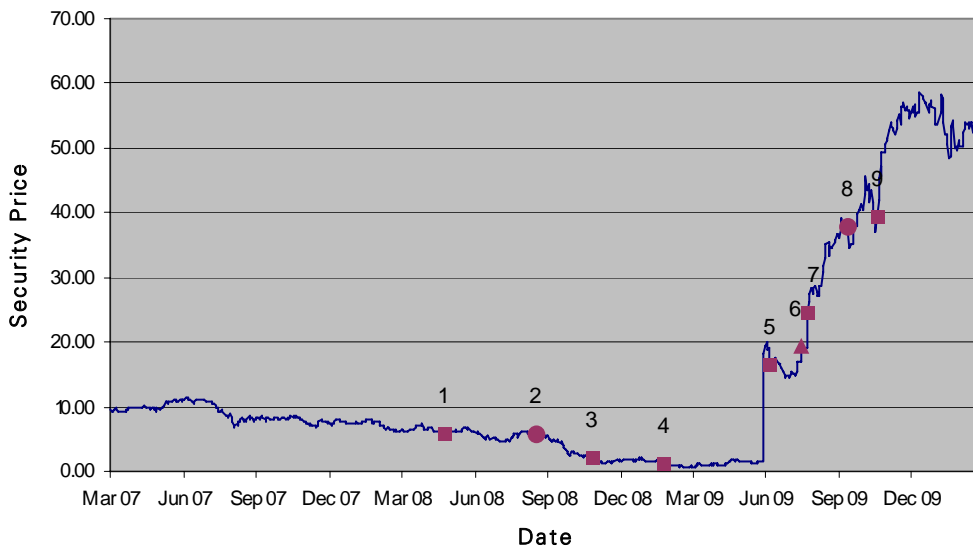
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	11/2/2008:	Downgrade to Sell, Target Price Change USD8.00	4.	12/9/2009:	Buy, Target Price Change USD16.00
2.	2/12/2009:	Upgrade to Hold, USD8.00	5.	1/6/2010:	Buy, Target Price Change USD18.00
3.	8/5/2009:	Upgrade to Buy, Target Price Change USD14.00			

**Historical recommendations and target price: Domtar (UFS.N)**

(as of 3/10/2010)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

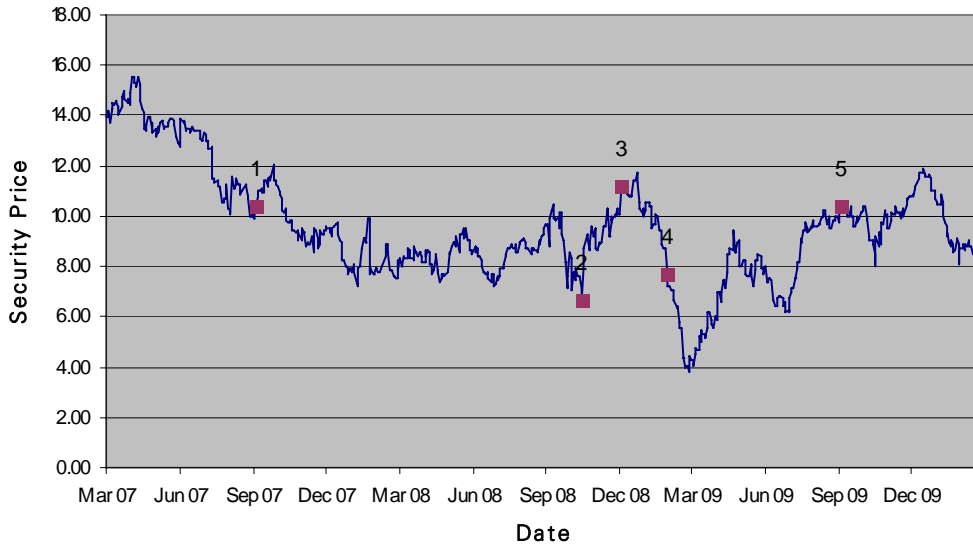
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	5/6/2008:	Buy, Target Price Change USD10.00	6.	7/28/2009:	Upgrade to Buy, USD24.00
2.	8/29/2008:	Downgrade to Hold, Target Price Change USD6.00	7.	8/5/2009:	Buy, Target Price Change USD35.00
3.	11/6/2008:	Hold, Target Price Change USD4.00	8.	9/23/2009:	Downgrade to Hold, Target Price Change USD40.00
4.	2/5/2009:	Hold, Target Price Change USD2.00	9.	10/30/2009:	Hold, Target Price Change USD45.00
5.	6/19/2009:	Hold, Target Price Change USD24.00			

**Historical recommendations and target price: Wausau Paper Corp (WPP.N)**

(as of 3/10/2010)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

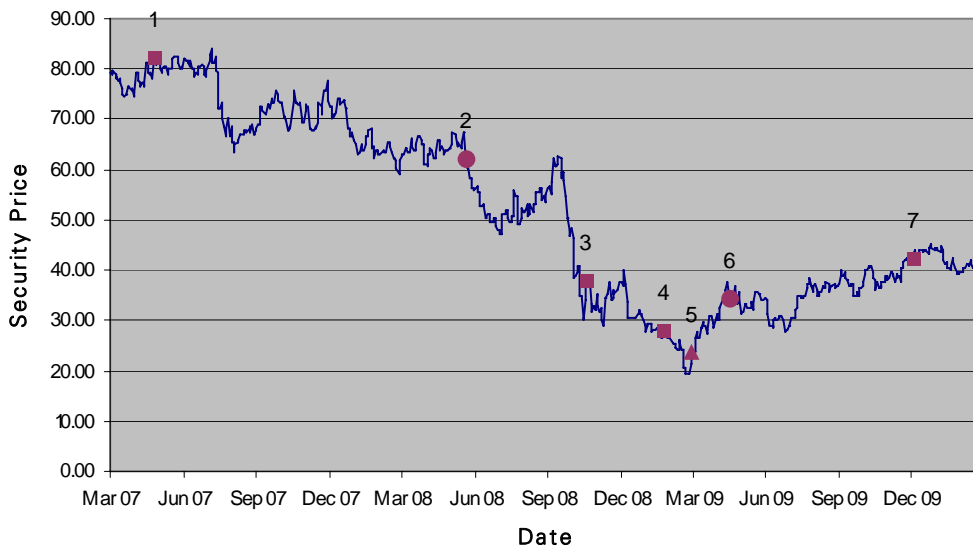
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1. 9/17/2007:	Buy, Target Price Change USD17.00	4. 2/11/2009:	Buy, Target Price Change USD10.00
2. 10/28/2008:	Buy, Target Price Change USD10.00	5. 9/18/2009:	Buy, Target Price Change USD13.00
3. 12/16/2008:	Buy, Target Price Change USD12.00		

**Historical recommendations and target price: Weyerhaeuser (WY.N)**

(as of 3/10/2010)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1. 5/7/2007:	Buy, Target Price Change USD95.00	5. 3/13/2009:	Upgrade to Buy, USD30.00
2. 6/2/2008:	Downgrade to Hold, Target Price Change USD65.00	6. 4/28/2009:	Downgrade to Hold, Target Price Change USD38.00
3. 10/31/2008:	Hold, Target Price Change USD42.00	7. 12/15/2009:	Hold, Target Price Change USD47.00
4. 2/6/2009:	Hold, Target Price Change USD30.00		

Equity rating key

Equity rating dispersion and banking relationships

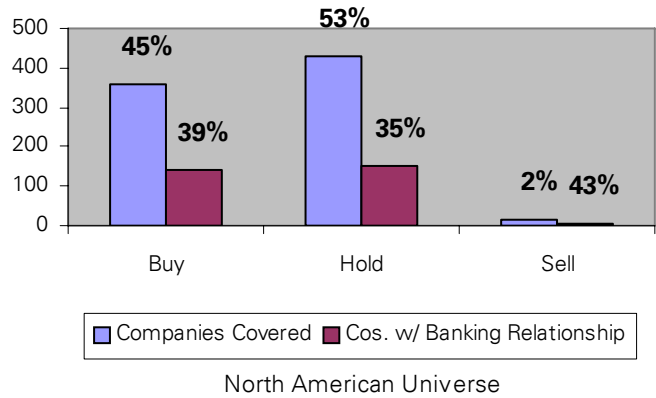
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