

30 Apr 2010 - 08:32:21 AM EDT

## COMPANY ALERT

### Domtar

#### First Thoughts on Domtar's 1Q

## Results

### Hold

Reuters:UFS.N Exchange:NYS Ticker:UFS

Price (USD)	76.40
Price target	65.00
52-week range	78.39 - 13.68
Market cap (USDm)	3,285.2
Shares outstanding (m)	43.0
Free float (%)	100
Volume (29 Apr 2010)	771,400
TSE Composite	12,200.32

FYE 12/31	2009A	2010E	2011E
1Q EPS	-0.84	0.95	-
2Q EPS	-0.76	1.60	-
3Q EPS	1.32	2.05	-
4Q EPS	1.39	1.65	-
FY EPS (USD)	1.11	6.25	3.40
P/E (x)	24.3	12.2	22.5

\* Includes the impact of FAS123R requiring the expensing of stock options.

**Better than expected.** Pointing to \$1.59 in 1Q EPS net of special items. DB was at \$0.95, and Consensus at \$1.07. Comps: 4Q09 = \$1.39 (but on very low tax rate), 1Q09 = \$(0.84). The 4Q09 number on a normalized 32% tax rate was about \$1.02.

**Segments:** Paper operating income before special items rose \$33MM q/q, partially offset by q/q erosion of \$2MM in Merchants and \$1MM in Wood. Interest expense was \$5MM lower q/q. This totals to \$35MM in q/q pre-tax improvement, which equates to about \$0.55 in EPS (at a 32% tax rate). Add this to 4Q's pro forma EPS of \$1.02, and we get to \$1.57, very close to the \$1.59 that the company actually points to.

**The big positive surprise?** Paper segment operating income before special items rose q/q from \$104MM to \$137MM. Compare this to IP's results yesterday. In IP's North American Printing Papers and U.S. Market Pulp businesses, operating income before items improved only from \$59MM in 4Q09 to \$67MM in 1Q10.

**Outlook Commentary:** UFS demand stable (previously expected volume declines in '10), and prices rising, partially offset by rising costs. 2Q to have higher-than-average maintenance costs.

**Call at 10 am EDT:** N.A., 866-321-8231 and International, 416-642-5213.

**Mark Wilde**  
 Research Analyst  
 (+1) 212 250-5570  
 mark.wilde@db.com

**Christopher Chun, CFA**  
 Research Analyst  
 (+1) 212 250-8342  
 christopher.chun@db.com

**Debbie Jones**  
 Research Associate  
 (+1) 212 250-2956  
 debbie.jones@db.com

Deutsche Bank Securities Inc.

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

THE VIEWS EXPRESSED ABOVE ACCURATELY REFLECT PERSONAL VIEWS OF THE AUTHORS ABOUT THE SUBJECT COMPANY(IES) AND ITS(THEIR) SECURITIES. THEY HAVE NOT AND WILL NOT RECEIVE ANY COMPENSATION FOR PROVIDING A SPECIFIC RECOMMENDATION OR VIEW IN THIS REPORT. FOR OTHER DISCLOSURES PLEASE VISIT [HTTP://GM.DB.COM](http://GM.DB.COM) MICA(P) 106/05/2009