

04 Feb 2010 - 09:21:13 AM EDT

## COMPANY ALERT

### Domtar

#### First Thoughts on Domtar's 4Q

## Results

### Hold

Reuters:UFS.N Exchange:NYS Ticker:UFS

Price (USD)	<b>53.35</b>
Price target	<b>45.00</b>
52-week range	<b>58.50 - 7.20</b>
Market cap (USDm)	<b>2,291.8</b>
Shares outstanding (m)	<b>43.0</b>
Free float (%)	<b>100</b>
Volume (3 Feb 2010)	<b>304,000</b>
TSE Composite	<b>11,390.46</b>

FYE 12/31	2008A	2009E	2010E
1Q EPS	0.60	-0.84A	-
2Q EPS	0.72	-0.76A	-
3Q EPS	1.20	1.32A	-
4Q EPS	-0.48	0.80	-
FY EPS (USD)	2.04	0.52	2.25
P/E (x)	30.4	102.4	23.7

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

Another strong quarter, but not as good as it first appears. Operating results seem about in-line. Reporting GAAP EPS of \$2.86 and pointing to \$1.39 net of special items. DBe was at \$0.80, and Consensus at \$0.91.

What was the "real" number? GAAP pre-tax income was \$166MM, and GAAP net income was \$124MM. Strip out one-time items, and pre-tax income looks like \$65MM, and net income looks like \$60MM (\$1.39/share), for a tax rate of under 8%. Use a normalized 32% tax rate, and EPS would look like \$1.02.

Relative to 3Q's \$1.32, the EPS decline was steeper than even the \$1.02 suggests. Adjusted pre-tax income fell \$29MM q/q. Tax that down at a normalized 32%, and the q/q decline looks like \$20MM, or \$0.46/share. This would make the number look like \$0.86.

Outlook Commentary: Nothing on costs (IP's big issue). Comments on paper hint at further volume declines in '10.

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