

05 Feb 2009 - 09:00:12 AM EDT

## COMPANY ALERT

### Domtar

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

## Results

### Hold

Reuters:UFS.N Exchange:NYS Ticker:UFS

Price (USD)	<b>1.32</b>
Price target	<b>4.00</b>
52-week range	<b>7.81 - 1.14</b>
Market cap (USDm)	<b>680.5</b>
Shares outstanding (m)	<b>515.5</b>
Free float (%)	<b>100</b>
Volume (4 Feb 2009)	<b>524,200</b>
TSE Composite	<b>8,693.09</b>

FYE 12/31	2007A	2008E	2009E
1Q EPS	0.08	0.05A	-
2Q EPS	-0.01	0.06A	-
3Q EPS	0.09	0.10A	-
4Q EPS	0.06	0.05	-
FY EPS (USD)	0.22	0.26	0.05
P/E (x)	40.5	5.1	27.8

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

Weak quarter. Reporting GAAP EPS loss of \$(1.31) and pointing to loss of \$(0.04) net of special items (mostly impairment of goodwill and write-down of PP&E). DBe was at \$0.05 and FC at \$0.06.

It seems odd that it is pointing to an EPS loss net of special items, given that it is pointing to (a) EBITDA net of special items of \$132MM, (b) depreciation of \$110MM, and (c) interest expense of \$22MM. This suggests pre-tax income of zero. We think the likely explanation could be that the depreciation and interest figures were impacted by the special items and that they were higher before the special items.

The biggest issue was weak paper volume. Lower pulp prices also hurt. Paper shipments fell 15% y/y, about in-line with the industry. Papers segment EBITDA fell \$103MM q/q. Not much sequential change in Merchants or Wood. Merchants EBITDA was \$3MM (+\$1MM q/q), and Wood EBITDA remained \$(4MM) (flat q/q).

Outlook: "none of our markets are showing any signs of demand recovery as of yet." Announced permanent closure of a 230K tpy machine at Plymouth, NC. Pointing to stable prices in UFS, but industry reports suggest some erosion. With weak demand and low pulp prices, further erosion appears likely.

Conference call at 10 am EST: 1-866-321-8231.

**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.

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