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COMPANY ALERT

Domtar

Domtar's 1Q in 100 words

Results

Hold

Reuters:UFS.N Exchange:NYS Ticker:UFS

Price (USD)	1.82
Price target	2.00
52-week range	6.89 - 0.60
Market cap (USDm)	938.2
Shares outstanding (m)	515.5
Free float (%)	100
Volume (30 Apr 2009)	11,688,000
TSE Composite	9,324.83

FYE 12/31	2008A	2009E	2010E
1Q EPS	0.05	-0.07A	-
2Q EPS	0.06	-0.07	-
3Q EPS	0.10	-0.07	-
4Q EPS	-0.04	-0.09	-
FY EPS (USD)	0.17	-0.30	-0.10
P/E (x)	30.4	-	-

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

Operating results were roughly in-line, but low tax rate resulted in EPS loss slightly larger than expected. Pointing to \$(0.07) net of special items. DBe was at \$(0.05), and FC at \$(0.04). Comps: 4Q08 = \$(0.04), 1Q08 = \$0.05. Tax rate was just 15%. A \$15MM inventory revaluation charge also hurt results.

Paper: EBITDA = \$90MM, 4Q08 = \$132MM, 1Q08 = \$210MM. Paper volumes -24% y/y, -9% q/q. Pulp volumes -9% y/y, -11% q/q. NBSK realizations -\$91/mton q/q (-\$247/mton y/y). In UFS, offset rolls -\$33/ton q/q, but copy +\$4/ton q/q.

Merchants: EBITDA = \$3MM, 4Q08 = \$3MM, 1Q08 = \$3MM. Still sluggish, but managing to hold steady in challenging conditions with falling prices and volumes.

Wood: EBITDA = \$(12MM), 4Q08 = \$(4MM), 1Q08 = \$(16MM). No surprise given seasonal weakness and further cyclical deterioration.

Other issues: (1) Will monetize non-core assets, including forestlands, hydro assets, idled mills, and lumber mills. Targeting \$150MM over 12 months. (2) Closure of Woodland pulp mill should save \$10-15MM/qtr. (3) Accrued \$46MM in black liquor credits in 1Q (40% of full run-rate), suggests FY09 = \$375-400MM, cash taxes should be minimal.

Change in view? Not really. Domtar's high financial & operating leverage gives stock interesting option-like characteristics. However, ST challenges remain significant and uncoated white paper mkt faces secular issues. Maintain Hold and \$2 price target. Estimates: FY09 goes slightly lower, from \$(0.25) to \$(0.30) [2Q = \$(0.07)], FY10 stays at \$(0.10).

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