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INDUSTRY ALERT

Results

Paper & Forest Products

September global pulp shipments: better than expected

Focus stocks

International Paper (IP.N), USD23.64
 Buy, Price Target USD32.00

Domtar (UFS.N), USD72.91 Hold,
 Price Target USD60.00

Wausau Paper Corp
 (WPP.N), USD8.72 Buy, Price Target
 USD13.00

* According to data released today by the Pulp and Paper Products Council, Sept. global pulp shipments showed higher than expected shipment levels. Inventories declined m/m on an actual basis, but increased slightly on a seasonally adj. calculation. We are somewhat surprised by the data, as Sept.'s shipment level is the highest in history and against a difficult y/y comp. The data is incrementally positive for pulp producers.

* Global mkt pulp shipments increased 14.4% m/m and 2.9% y/y to 3,630K mtons. Most of the increase is attributable to higher than exp. consumption in China, up 70.4% m/m and 7.4% y/y to 685K. We caution that almost half of this sequential increase was due to delayed ship's from August. W. Europe also showed strength, with ship's up 12.3% m/m and 10.5% y/y. However, this uptick is not as unexpected given significant backlogs in the region.

* Producer stocks fell from 34 days to 32 days on an actual basis (still within avg. historical levels). However, on a seasonally adj. basis, inventories increased from 30 to 32 days. We had expected inventories to increase modestly. The global softwood mkt remains tighter than hardwood at 26 and 38 days of supply (SA), respectively.

* List prices for pulp have already fallen from the peak levels seen in July '10. Prices are off \$30-50/ton in the domestic mkt and down further in markets like China. September pulp data suggests the global supply/demand balance is holding up better than expected. While we continue to expect pulp prices to decline, the pace may be slower than initially expected.

* Among our coverage, falling pulp prices would reduce earnings at Domtar and International Paper - particularly, Domtar. On the other side of the equation, Wausau is a significant net buyer of pulp and could see improved margins for its tissue and paper businesses.

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