

**PAPER & FOREST PRODUCTS**

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# Paper & Forest Products

## Building Materials; Deep Value Proposition Prompts Upgrades

**Mild Demand Recovery + Capacity Shuts = Higher Pricing Forecasts –** Despite cheap valuations, our pessimistic stance on the strength and timing of the U.S. housing recovery coupled with negative cash generation has backstopped our cautious view on building materials producers. What has changed? Updates to key inputs in our RJ U.S. housing model suggest that U.S. housing starts will modestly improve in 2010 to the 650,000 level. Coupled with capacity shuts, we expect this to result in improved North American lumber operating rates allowing benchmark SPF lumber pricing to average US\$225/mfbm next year – up from US\$210/mfbm forecast previously.

**Cash Flow Neutrality Key to Upgrades –** While certainly not a price level to break out the bubbly, along with cost reductions we expect this to allow lumber producers to staunch the flow of red ink on a cash basis. We regard this as a necessary development from a deep value investor’s point of view. Coupled with a much better 2011 demand outlook, we expect the reduction of the free cash burn rate to push Canadian lumber producer valuations from trough to mid-cycle levels over the next 12 months. Accordingly, we are raising targets and ratings on building materials producers.

**Risk of Being Early Offset by Asymmetric Payoff –** While we acknowledge the potential for several difficult upcoming quarters, we highlight the asymmetric tradeoff with current valuations implying less than 10% downside and historic peak multiples offering more than 200% upside, in some cases. Our targets imply the greatest upside in Interfor and Canfor; however, we regard West Fraser as having the lowest risk. We regard Norbord and TimberWest as fairly valued.

**RJ U.S. Housing Model Forecasts 19% Increase in 2010; 38% in 2011 –** Using consensus macro estimates, our 8 factor model forecasts U.S. total housing starts averaging 530,000 in 2009, 650,000 in 2010 and breaking the 1.0 mln level in 4Q11. Assumptions on Foreclosures and Inventory levels remain key to the outlook. While mortgage delinquencies are running at record rates, translations into foreclosures have not kept pace. We assume a peak in late 2010. With improved affordability and sales volumes we also expect total housing inventory to peak in late 2009. Longer term, we see the negative effects of the aging U.S. population on household formation at least partially offset by a rebound in the 25-34 cohort and Mountain Pine Beetle related capacity reductions.

**SECTOR SUMMARY**

COMPANY			RATING
TICKER	CUR PRICE	RETURN	TARGET
<b>Building Materials</b>			
Canfor Corp.			OUTPERFORM 2 ↑
CFP-TSX	C \$5.71	31%	\$7.50 ↑
Interfor			OUTPERFORM 2 ↑
IFP-TSX	C \$2.91	55%	\$4.50 ↑
Norbord			MARKET PERFORM 3 =
NBD-TSX	C \$1.85	-5%	\$1.75 ↑
West Fraser			OUTPERFORM 2 ↑
WFT-TSX	C \$25.42	38%	\$35.00 ↑
TimberWest			MARKET PERFORM 3 =
TWF.UN-TSX	C \$3.81	5%	\$4.00 ↑

*All figures in C\$, unless otherwise noted.  
 Sources: Raymond James Ltd., ThomsonOne, CapIQ*

## Estimates, Ratings and Target Changes

Lumber leveraged companies in our universe have generally moved sideways since our last update on May 27, 2009. For the most part, this has resulted in the stocks trading at near-trough valuations (see Exhibits 2 and 3). We see market conditions remaining challenging for the balance of 2009 and expect producers to continue to focus on cost, inventory and working capital management. In keeping with our 2010 cash neutrality thesis, however, we expect lumber producer equities to move to mid-cycle valuation multiples over the next 6-12 months, especially as investors begin to incorporate an improved 2011 housing demand outlook. In advance, we are upping our 6-12 month targets on building materials stocks and increasing our ratings on Canfor Corp, West Fraser Timber, and Interfor to OUTPERFORM from MARKET PERFORM (see Exhibit 1). We highlight that besides the timing of the U.S. housing market recovery, bilateral currency FX rates, labour contract negotiations and the Mountain Pine Beetle (MPB) remain key issues, in our view.

**Exhibit 1: Summary of Estimates, Ratings and Target Changes**

Company		Recent Price	2009E				2009E Yr	2010E Yr	6-12 Mth Target	Rating
			1Q	2Q	3Q	4Q				
<b>Building Materials</b>										
Canfor	Revised	\$5.71	\$ (0.55)	\$ (0.12)	\$ (0.22)	\$ (0.31)	\$ (1.20)	\$ (0.54)	\$7.50 ↑	OUTPERFORM 2 ↑
CFP-TSX	Previous		\$ (0.55)	\$ (0.12)	\$ (0.27)	\$ (0.31)	\$ (1.25)	N.A.	\$6.00	MARKET PERFORM 3
Interfor	Revised	\$2.91	\$ (0.28)	\$ (0.32)	\$ (0.20)	\$ (0.30)	\$ (1.10)	\$ (0.55)	\$4.50 ↑	OUTPERFORM 2 ↑
IFP.A-TSX	Previous		\$ (0.28)	\$ (0.32)	\$ (0.24)	\$ (0.30)	\$ (1.14)	N.A.	\$3.00	MARKET PERFORM 3
Norbord (US\$)	Revised	C\$1.85	\$ (0.07)	\$ (0.04)	\$ (0.01)	\$ (0.03)	\$ (0.15)	\$ (0.03)	C\$1.75 ↑	MARKET PERFORM 3
NBD-TSX	Previous		\$ (0.07)	\$ (0.04)	\$ (0.02)	\$ (0.05)	\$ (0.18)	N.A.	C\$0.95	MARKET PERFORM 3
West Fraser	Revised	\$25.42	\$ (1.26)	\$ (1.39)	\$ (0.73)	\$ (1.37)	\$ (4.75)	\$ (1.85)	\$35.00 ↑	OUTPERFORM 2 ↑
WFT-TSX	Previous		\$ (1.26)	\$ (1.39)	\$ (0.76)	\$ (1.39)	\$ (4.80)	N.A.	\$25.00	MARKET PERFORM 3
TimberWest	Revised	\$3.81	\$ (0.08)	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.22)	\$ 0.06	\$4.00 ↑	MARKET PERFORM 3
TWF.UN-TSX	Previous		\$ (0.08)	\$ (0.07)	\$ (0.01)	\$ (0.01)	\$ (0.17)	N.A.	\$3.50	MARKET PERFORM 3

Source: Raymond James Ltd.

**Canfor (CFP-TSX)** – We are upgrading Canfor to OUTPERFORM from MARKET PERFORM and increasing our target to \$7.50 from \$6.00 per share. The new target reflects a 4.4x mid-cycle EV/EBITDA multiple up from 3.7x previously. With lumber pricing averaging approx US\$165/mfbm during 1H09 Canfor generated negative EBITDA of approx \$30/mfbm. Based on our 2010 forecast of US\$225/mfbm and US\$0.91 FX, we expect Canfor to generate positive EBITDA of approx \$20/mfbm which we expect to be sufficient to fund interest expense and maintenance capex. Canfor maintains solid liquidity (\$586 mln in 2Q09) and low debt levels (net debt of 16%). This financial flexibility will likely prove useful as Canfor moves to diversify away from the heavily MPB impacted BC Central and Northern interior region (hosting approximately 80% of its lumber capacity). While relatively more sensitive to FX (estimated EBITDA impact of \$10 mln per US\$0.01) and MPB, we note that Canfor has a relatively high potential return based on historic peak multiples (See Exhibits 2 and 3).

**Interfor (IFP.A-TSX)** – We are upgrading Interfor to OUTPERFORM from MARKET PERFORM and increasing our target to \$4.50 from \$3.00. The new target implies a 2.7x mid-cycle EV/EBITDA multiple – up from 2.2x previously. Interfor showcased the \$98.6 mln upgrade to the Adam's lake sawmill - hosting an analyst tour last week. The project was completed on time and on budget with an annual 2 shift production of 280 mln mfbm and top decile conversion costs. While Interfor's timber base is less exposed to the Mountain Pine Beetle (MPB) infestation, the mill is designed to handle beetle-killed wood. Reflecting an inexpensive valuation, relatively low FX sensitivity (estimated EBITDA impact of \$1 mln per US\$0.01), and minimal MPB exposure, Interfor offers a solid risk/reward proposition, in our view. While its valuation continues to be impacted by low trading liquidity, based on increases to mid-cycle earnings potential, Interfor represents the highest potential upside in our building products universe (see Exhibits 2 and 3).

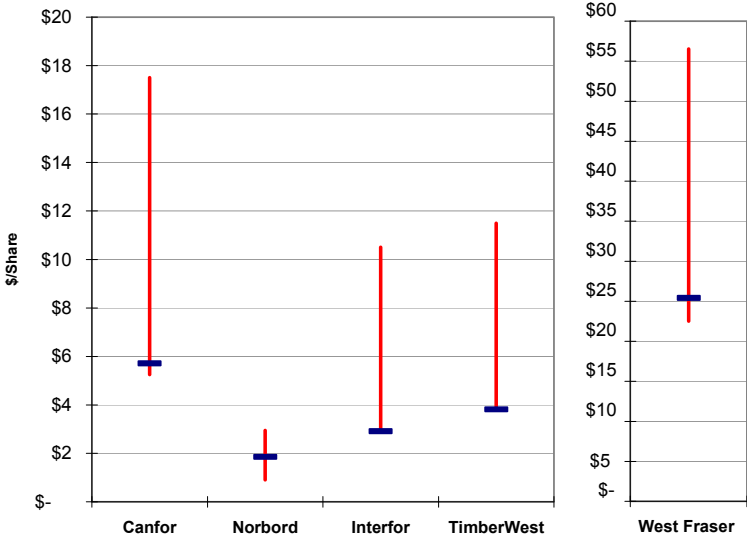
**Norbord (NBD-TSX)** – We are upping our target on Norbord to \$1.75 from \$0.95 per share while keeping the MARKET PERFORM rating. The new target represents a 5.4x mid-cycle EV/EBITDA multiple, up from 4.0x previously. Norbord has bucked the trend of building materials peers with shares appreciating more than 100% during 3Q09. With company shares now reflecting mid-cycle multiples, we view Norbord as fairly valued – especially reflecting its 58% net debt ratio at the end of 2Q09. We note that relative to lumber, OSB end use markets are more heavily reliant on new home construction. We expect this, combined with lower indefinite capacity withdrawals, to lead to lower average operating rates over the next two years and a more muted price recovery than lumber. However, we highlight

Norbord's relative insensitivity to US\$ depreciation with each US\$0.01 change impacting EBITDA by just US\$1 mln. We highlight that based on 4Q08 changes to its capital structure and historic peak multiples, Norbord shares have the lowest potential return in our building materials universe (See Exhibits 2 and 3).

**TimberWest (TWF.UN-TSX)** – We are increasing our target on TimberWest to \$4.00 from \$3.50 per unit. The new target reflects a 5.8 mid-cycle EV/EBITDA multiple, up from 5.2x previously. Despite an inexpensive asset valuation, we are maintaining our MARKET PERFORM rating, reflecting our cautious stance on company prospects over our forecast horizon. We expect log markets to lag any lumber market recovery and hence expect another challenging year in 2010. Under a flat log price realization scenario, more than ever we see TimberWest's fortunes depending critically on real estate sales. The company continues to seek a buyer for 18,813 ha of timberland which we expect to be worth approximately \$40 mln - \$60 mln. We remind investors that 2010 covenants require a minimum 4 quarter look-back EBITDA of \$8.3 mln, \$16.2 mln, \$24.0 mln and \$32.1 mln in 1Q10, 2Q09, 3Q10 and 4Q10, respectively. While an asset sale of this scale would likely significantly decrease the risk of a 2010 EBITDA covenant breach, land valuation and TWF's ability to close the deal remain key issues, in our view.

**West Fraser (WFT-TSX)** – We are upgrading West Fraser to OUTPERFORM from MARKET PERFORM and increasing its target to \$35.00 from \$25.00 per share. The new target reflects a 4.7x mid-cycle EV/EBITDA multiple up from 3.7x previously. During 1H09, WFT generated negative EBITDA of approx \$20/mfbm. Based on our 2010 assumptions we expect positive EBITDA generation of approx \$25/mfbm – which is sufficient to fund assumed interest and maintenance capex levels. Net debt is relatively low at 24% and liquidity remains solid at \$567 mln. With nearly 30% of lumber capacity in the U.S. South, West Fraser has a partial hedge on MPB impacts and the risk of further depreciation in the US\$ (estimated EBITDA impact of \$14 mln per US\$0.01). With its low cost structure and diversified business model, we regard WFT as the lowest risk building materials play in our universe.

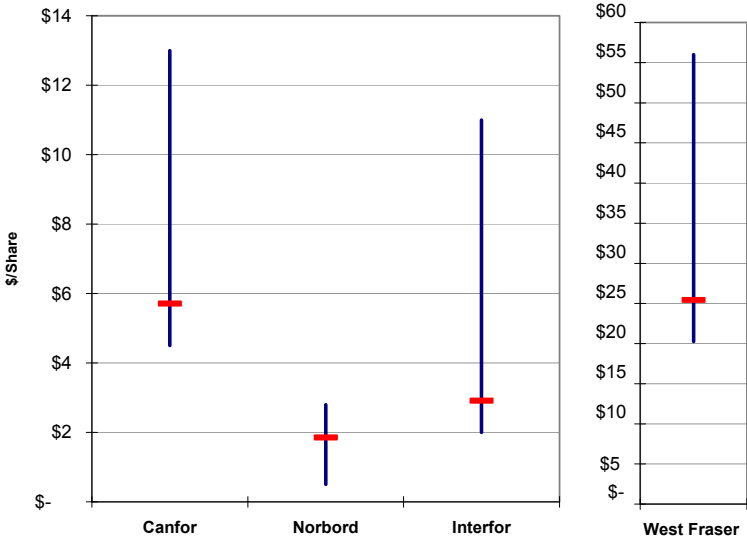
**Exhibit 2: Theoretical Mid Cycle EV/EBITDA Trading Ranges**



\* Based on 1999-2009 historic Mid-Cycle EV/EBITDA multiple range

Source: Raymond James Ltd.

**Exhibit 3: Theoretical Net Asset Value Trading Ranges**



\* Based on Lumber/OSB TEV/unit ranging from US\$120 to US\$360

\*\* Includes temporarily or indefinitely shut capacity

Source: Raymond James Ltd.

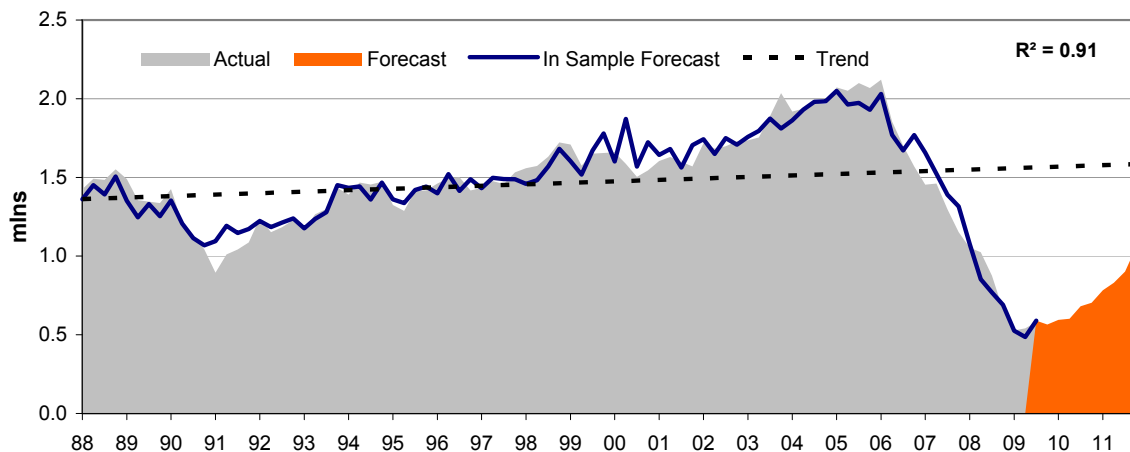
## U.S. Housing Market Outlook

**Taking the Markets Pulse** – The U.S. housing market remains the key demand driver and the most uncertain input for the building materials outlook, in our view. After troughing below 500,000 units (SAAR) this spring, total August U.S. Housing starts improved to 600,000 but were still 30% lower than last year's level. Wood intensive single-family starts were 479,000 units. Acknowledging the importance of predicting the timing and extent of the U.S. recovery, we published a detailed U.S. housing market outlook on May-26-09. Based on consensus macro inputs at the time, our model predicted housing bottoming in 2009 with total U.S. starts averaging 630,000 in 2010 and 820,000 in 2011 (See Appendix 1 for a more detailed discussion of inputs).

**Foreclosures & Inventory Remain Key Inputs** – We believe Foreclosure rates and For Sale Inventory remain the key variables to the forecast. Spurred by lax lending standards and the highest unemployment rate in 26 years, Aug-09 U.S. mortgage foreclosure filings hovered near July's record high with one in every 357 U.S. households receiving a notice. Overall, RealtyTrac forecasts 3.4 mln U.S. households receiving a filing in 2009. Whether reflecting government sponsored loan modifications or simply delays in repossessions, translation into actual repossessions did not keep pace in August however – a mild positive. Our housing forecast assumes a peak in foreclosures starting in late 2010. While new housing inventory has been pared back, inventory of existing homes for sale remains elevated. However, with improved affordability and sales volumes our forecast assumes that total housing inventory peaks in late 2009.

**Outlook Improved but Recovery Still Meek** – Adding another demographic variable and updating input assumptions for current consensus results in a slightly higher U.S. total housing start forecast. We now predict total starts of 530,000 in 2009, 650,000 in 2010 and 890,000 in 2011. Despite forecast increases of 19% and 38% in 2010 and 2011 (respectively) we do still expect a relatively tepid recovery. Our quarterly forecast suggests U.S. starts have already troughed for this cycle but we don't expect starts to breach the 1.0 mln level – more than 1/3 below trend and a nearly 60% below peak levels - until 4Q11 (see Exhibit 4).

#### Exhibit 4: RJ U.S. Total Housing Start Model



Independent Variables	Coeff.	t-Stat	Sense. to 0.1%	---Actuals---			---Forecast---		
				2006	2007	2008	2009	2010	2011
Intercept	2.586	9.70							
US GDP (%)	0.033	6.29	0.6%	2.5	2.5	(1.8)	(0.5)	2.7	3.0
C-S HOME PRICE INDEX	0.005	5.86	1.1%	224.6	214.6	178.7	149.2	140.1	147.9
US 10 YR BOND YIELD (%)	(0.037)	(1.76)	-0.6%	4.8	4.7	3.7	3.4	4.1	4.2
FORECLOSURES (%)	(0.681)	(4.59)	-11.5%	0.46	0.71	1.08	1.39	1.40	1.20
US POP 25-34 YRS (Yr/Yr %)	0.118	3.49	2.0%	0.6	0.9	0.8	0.9	1.3	1.6
US POP >65 YRS (Yr/Yr %)	(0.124)	(2.21)	-2.1%	1.4	1.7	2.0	2.2	1.8	2.2
UNEMPLOYMENT (%)	(0.065)	(3.31)	-1.1%	4.6	4.6	5.8	9.2	9.7	8.9
TOTAL INVENTORY (mlns)	(0.214)	(5.11)	-1.5%	4.6	5.2	5.1	4.1	4.0	3.9
<b>US Total Housing Starts (mln)</b>				<b>1.81</b>	<b>1.34</b>	<b>0.90</b>	<b>0.54</b>	<b>0.65</b>	<b>0.89</b>
Qrt/Qrt % Change					-26%	-33%	-40%	19%	38%

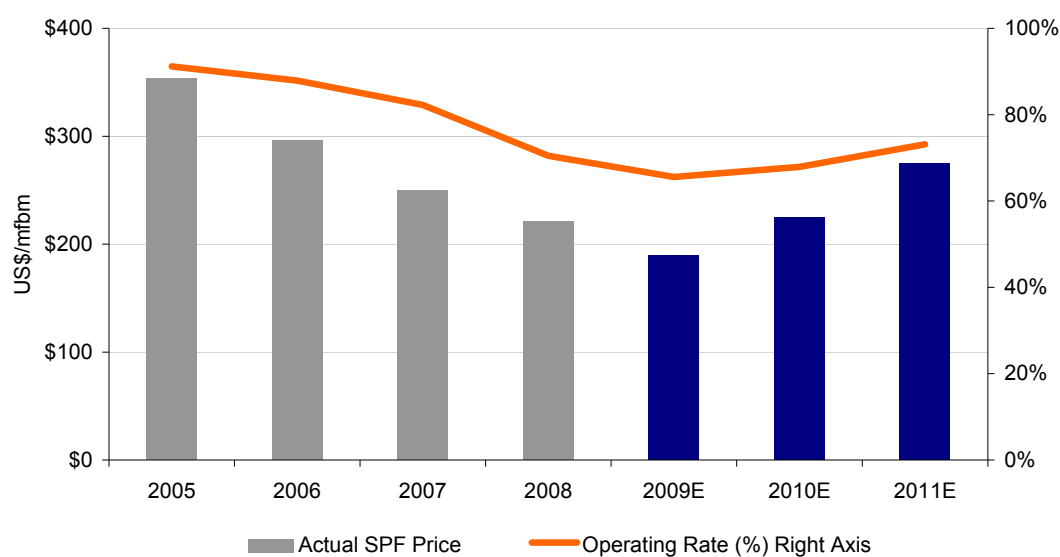
Source: Raymond James Ltd.

#### Lumber Supply/Demand Model

We apply a simple regression model to equate total U.S. housing starts to North American lumber demand. Our housing start forecast translates into North American lumber demand increasing from 45 bfbm in 2009 to 52 bfbm in 2011 – approx 40% below peak levels in 2005/06. We peg North American lumber capacity at 69 to 71 bfbm for the forecast period – roughly 15%-20% lower than prior peak capacity, reflecting permanent and indefinitely idled mills. Together these assumptions result in a North American lumber operating rate increasing from 66% in 2009 to 73% in 2011.

Unlike 2009, we expect a more pronounced seasonal run-up in pricing next year due to a reduced supply response reflecting; 1) a distribution chain bereft of inventory and, 2) reduced financial capacity to run unprofitable operations. Based on this, forecast operating rates and our US\$0.91 FX rate assumption we are calling for benchmark average WSPF 2x4 lumber prices of US\$190/mfbm in 2009, US\$225 in 2010 and US\$275 in 2011 (See Exhibit 5).

**Exhibit 5: Lumber Supply/Demand Model**



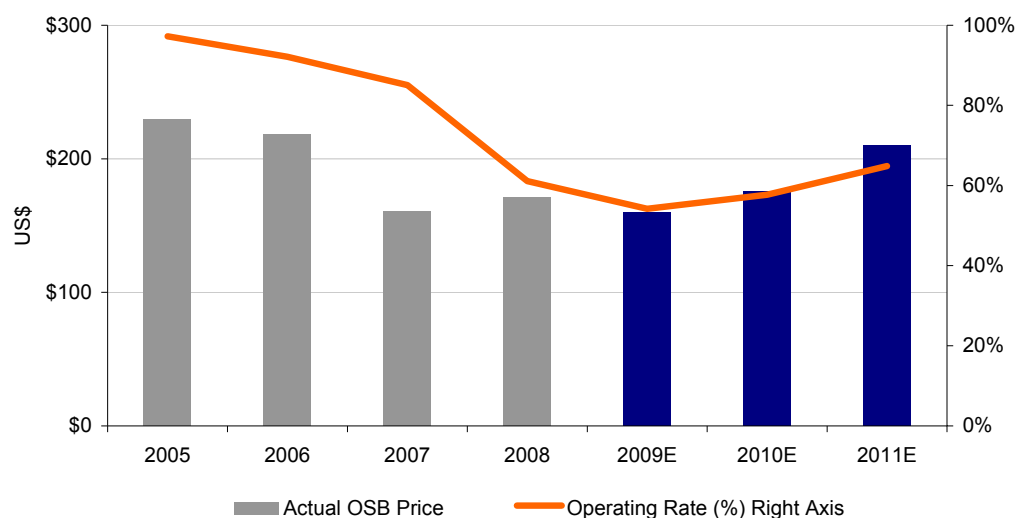
	2005	2006	2007	2008	2009E	2010E	2011E
<b>Demand</b>							
U.S. Total Housing Starts (mlns)	2.07	1.81	1.34	0.90	0.54	0.65	0.89
N.A. Lumber Demand	74.7	72.4	66.3	52.4	45.3	47.2	51.9
Yr/Yr Change	2.2%	-3.1%	-8.4%	-21.0%	-13.6%	4.3%	10.0%
<b>Supply</b>							
N.A. Lumber Capacity	81.9	82.4	80.6	74.4	69.0	69.5	71.0
Yr/Yr Change	2.6%	0.6%	-2.2%	-7.7%	-7.3%	0.8%	2.1%
<b>N.A. Operating Rate (%)</b>	91%	88%	82%	70%	66%	68%	73%
<b>WSPF Lumber Pricing (US\$/mfbm)</b>	\$ 354	\$ 296	\$ 250	\$ 221	\$ 190	\$ 225	\$ 275

Source: Raymond James Ltd.

## Panel Supply/Demand Model

Applying the same methodology we also estimate demand, capacity, and operating rates to forecast pricing for North American structural panels (OSB & plywood). We expect approx 2.4Bsf of OSB capacity was shut in 2008, putting overall panel capacity at approx 40.2 Bsf. In general, with higher capacity figures and a greater dependence on new home construction, we are less bullish on the structural panel outlook. However, we still forecast panel operating rates increasing from 54% in 2009 to 65% in 2011 and N/C OSB pricing increasing from an average of US\$160/msf to US\$210 in 2011 (See Exhibit 6).

### Exhibit 6: Panel Supply/Demand Model



	2005	2006	2007	2008	2009E	2010E	2011E
<b>Demand</b>							
U.S. Total Housing Starts (mlns)	2.07	1.81	1.34	0.90	0.54	0.65	0.89
N.A. Panel Demand	45.7	43.6	39.4	26.9	19.6	21.3	25.6
Yr/Yr Change	3.3%	-4.6%	-9.7%	-31.8%	-27.2%	9.1%	20.0%
<b>Supply</b>							
N.A. Panel Capacity	47.0	47.3	46.3	40.2	36.1	37.0	39.5
Yr/Yr Change	1.9%	0.7%	-2.2%	-13.2%	-10.2%	2.5%	6.8%
<b>N.A. Operating Rate (%)</b>	97%	92%	85%	61%	54%	58%	65%
<b>OSB Price (\$US)</b>	\$ 229	\$ 218	\$ 161	\$ 171	\$ 160	\$ 175	\$ 210

Source: Raymond James Ltd.

## Appendix

We estimated an eight factor U.S. housing start model to forecast quarterly total U.S. housing starts for 2009-2011. The model is well specified with significant variables and an  $R^2$  of 0.91. A discussion of key inputs and data sources are contained in this Appendix.

**U.S. Interest Rates** – Mainly due to readily available consensus forecasts, the U.S. 10 Year Bond Yield was used as a proxy for mortgage rates. After falling to 2.85% in 1Q09, rates have crept up averaging 3.37% and 3.46% in subsequent quarters. Despite the increases, rates remain extremely attractive relative to historic levels. Low long term rates and falling home prices have combined to push affordability to all time highs – a necessary event to help begin to clear the elevated available for sale housing inventory, in our view. Using consensus estimates from the 3Q09 Philadelphia Survey of Professional Forecasters released Aug-14-09, we assume rates increase from 3.6% in 3Q09 to 4.2% by 2011. In our model, a 0.1% increase in the 10 Year Bond Yield impacts Total U.S. Housing Starts by -0.6%.

**U.S. Home Prices** – The Composite 10 Case-Shiller Home Price Index (HPI) is strongly correlated with housing starts. The HPI averaged 151 in 2Q09 which pegged home prices at 2003 levels approximately 33% off the 2Q06 peak. While down 15.1% yr/yr in Jun-09, the index was up 1.4% over May-09 – the second consecutive increase. Our home price forecast is based on Case-Shiller HPI futures traded on the CME. The futures suggest the market is expecting the HPI to bottom during 2Q10 at prices approximately 40% off peak. While the resulting improvement in affordability should help to clear unsold inventory, the potential for further home price drops to lead to higher foreclosure rates and higher inventory is concerning. In our model, a 0.1% change in the HPI impacts Total U.S. Housing Starts by 1.1%.

**U.S. Unemployment** – We contend that household formation is highly dependent on job creation, a feature which has not been seen in the U.S. economy since 1Q08. Nonfarm payroll employment continued to decline in Aug-09 (-216,000) with the unemployment rate rising to 9.7%. Approximately 7.4 mln jobs have been lost in the U.S. since Dec-07 with the unemployment rate increasing by 4.8 percentage points. Based on consensus forecasts from the Philadelphia Survey, we assume that the U.S. Unemployment rate peaks at 9.9% in 1Q10 before slowly falling through 2011. The estimated coefficients in the RJ model suggest that a 0.1% change in the Unemployment rate impacts Total U.S. Housing Starts by -1.1%.

**U.S. GDP** – The Commerce Department reported 2Q09 GDP at -1%. This was significantly better than the 5.5% (revised) contraction in 1Q09 reflecting the impacts of the U.S. government stimulus package. Using consensus estimates from the Philadelphia Survey of Professional Forecasters we assume U.S. GDP turns positive in 3Q09 averaging 2.7% in 2010 and 3.0% in 2011. In our model, a 0.1% change in GDP impacts Total U.S. Housing Starts by 0.6%.

**U.S. Foreclosures Started** - According to the Mortgage Bankers Association's (MBA) National Delinquency Survey, the delinquency rate for mortgage loans rose to a seasonally adjusted rate of 9.2% of all loans outstanding as of the end of the 2Q09, up 12 bps from 1Q09, and up 283 bps yr/yr. The combined percentage of loans in foreclosure and at least one payment past due was 13.2%, the highest ever recorded in the survey. Likely reflecting the rise in the unemployment rate, the problem is moving to prime loans, and fixed rate prime loans. Although the delinquency rate is lower for prime fixed rate than for other loans, these loans make up 65.5% of all loans - so the increase is material. Foreclosure starts are difficult to forecast, due to the dependence on the willingness of lenders continuing to process default notices from the delinquency backlog. Nonetheless we assume delinquencies peak in mid 2010 and foreclosures peak at the end of 2010 - in line with the MBA's outlook. Along with Total For Sale Inventory, assumptions on Foreclosures Started remains the greatest risk to our forecast with a 0.1% change impacting Total Housing Starts by -11.5%.

**U.S. Total For Sale Inventory** – We found Total (new and existing) Home Inventory to be highly correlated with U.S. Total Housing Starts. The Census Bureau reported that the seasonally adjusted estimate of new houses for sale at the end of July was 271,000. This represents a supply of 7.5 months at the current sales rate down significantly from the record 12.4 months in Jan-09. According to the National Association of Realtors (NAR) existing home sales surged 7.2% in July, the largest monthly increase in over a decade. We expect affordability is playing a big role as NAR data show that first time buyers have accounted for 30% of sales in recent months. We assume housing inventory has peaked for this cycle and forecast Total Inventory to trend down from the current 4.1 mln unit level to 3.75 at the end of the forecast period. A 0.1% change in Total Inventory implies a -1.5% change in Total U.S. Housing Starts in our model.

**U.S. Population; 25-34 Yrs and > 65 Yrs** – Previously we used the total U.S. population < 65 Yrs as our demographic variable. The variable made economic sense as studies show that households tend to become “net sellers” when that milestone is reached. Based on feedback, we elected to change the demographic variable to separately include the 25-34 year old and the > 65 year old cohorts. Over our forecast horizon increases in the the 25-34 yr echo generation (which tend to have a high propensity to buy homes) partially offset the increases in the > 65 Yrs. While more balanced over the next few years, barring an increase in immigration, we still see demographic changes as a long term negative factor for U.S. household formation. In our model a 0.1% increase in the 25-34 Yr and > 65 Yr cohort impacts Total U.S. Housing Starts by +2.0% and -2.1% respectively.

## Risks

Some of the specific risk factors that pertain to the projected 6 to 12 month stock price target for our universe are as follows:

i) Forest product commodities are cyclical, slower than expected economic growth could reduce our price forecasts, ii) As sales are denominated in U.S. dollars, an appreciation of the Canadian dollar could negatively affect earnings, iii) An increase in energy prices could negatively impact earnings, iv) A reduction in the availability or an increase in price of raw materials could negatively affect operating margins, and v) Forest product markets are global in nature, trade issues affecting market access could impact earnings.

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## Analyst Certification

The views expressed in this report (which include the actual rating assigned to the company as well as the analytical substance and tone of the report) accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

## Stock Ratings

**STRONG BUY 1:** the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. **OUTPERFORM 2:** the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. **MARKET PERFORM 3:** the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. **UNDERPERFORM 4:** the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

## Distribution of Ratings

Out of 204 stocks in the Raymond James Ltd. (Canada) coverage universe, the ratings distribution is as follows: Strong Buy and Outperform (Buy, 64%); Market Perform (Hold, 34%); Underperform (Sell, 2%). Within those rating categories, the percentage of rated companies that currently are or have been investment-banking clients of Raymond James Ltd. or its affiliates over the past 12 months is as follows: Strong Buy and Outperform (Buy, 48%); Market Perform (Hold, 25%); Underperform, (Sell, 0%). Note: Data updated monthly.

## Risk Factors

Some of the general risk factors that pertain to the projected 6-12 month stock price targets included with our research are as follows: i) changes in industry fundamentals with respect to customer demand or product/service pricing could adversely impact expected revenues and earnings, ii) issues relating to major competitors, customers, suppliers and new product expectations could change investor attitudes toward the sector or this stock, iii) unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation, or iv) external factors that affect global and/or regional economies, interest rates, exchange rates or major segments of the economy could alter investor confidence and investment prospects.

## Analyst Compensation

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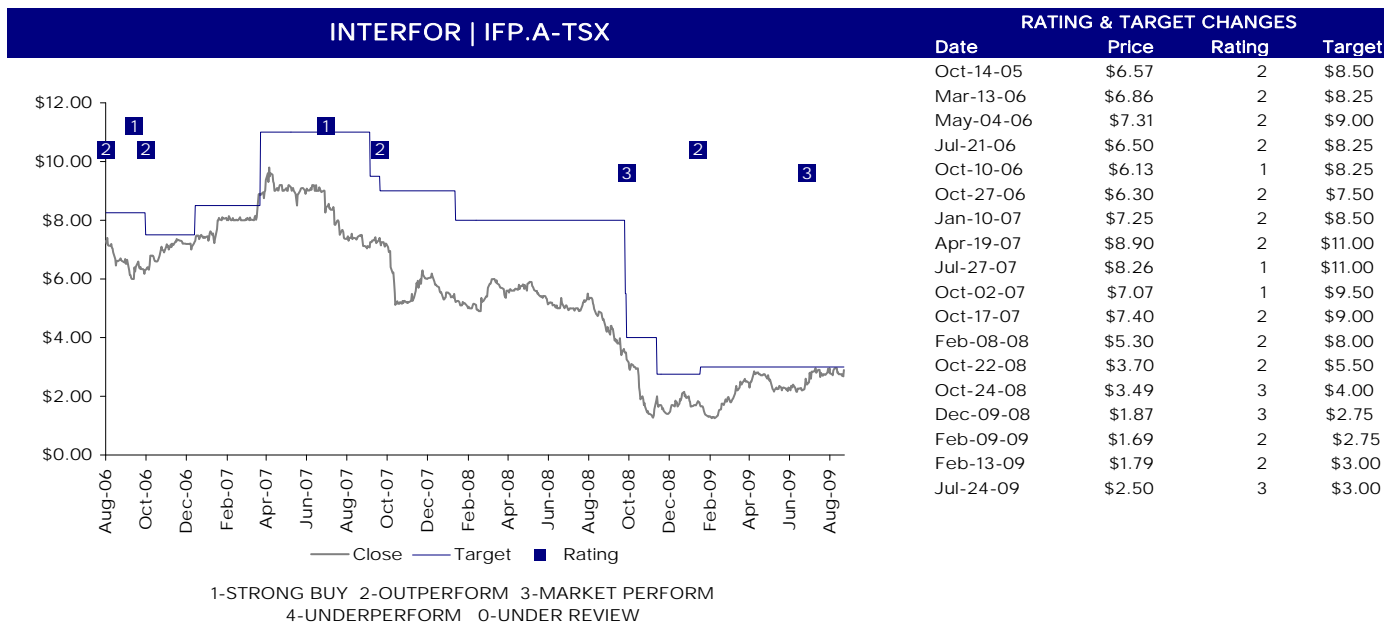
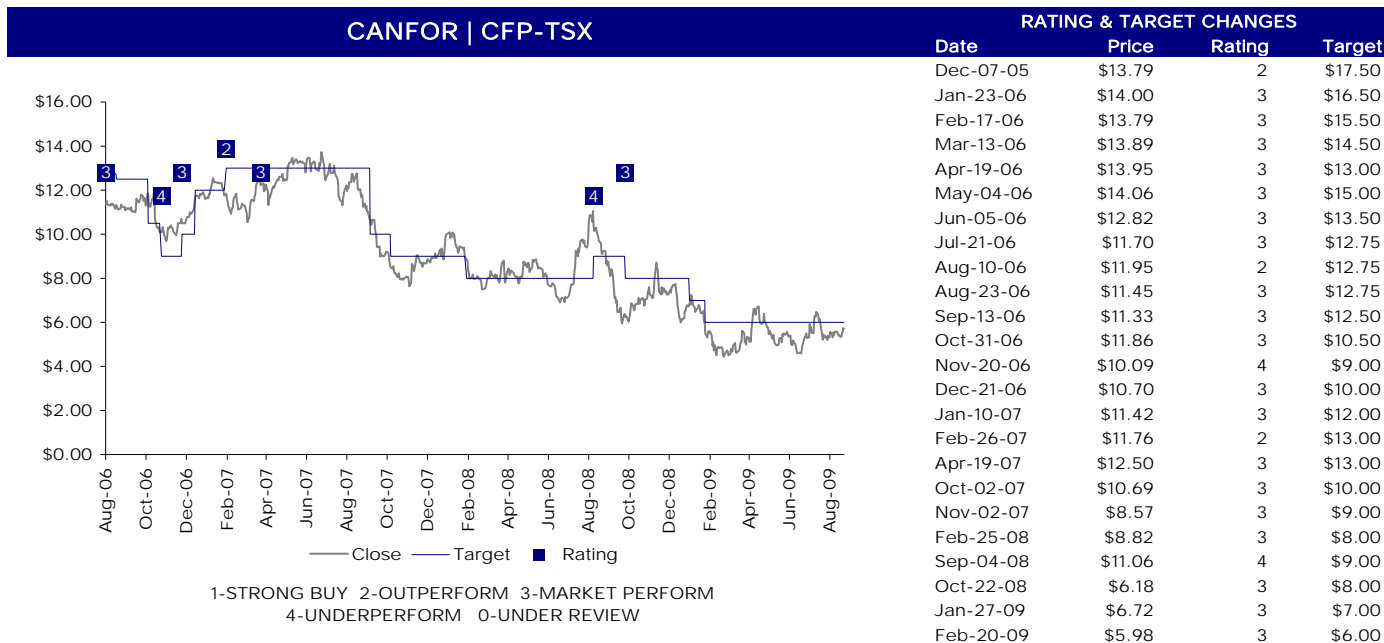
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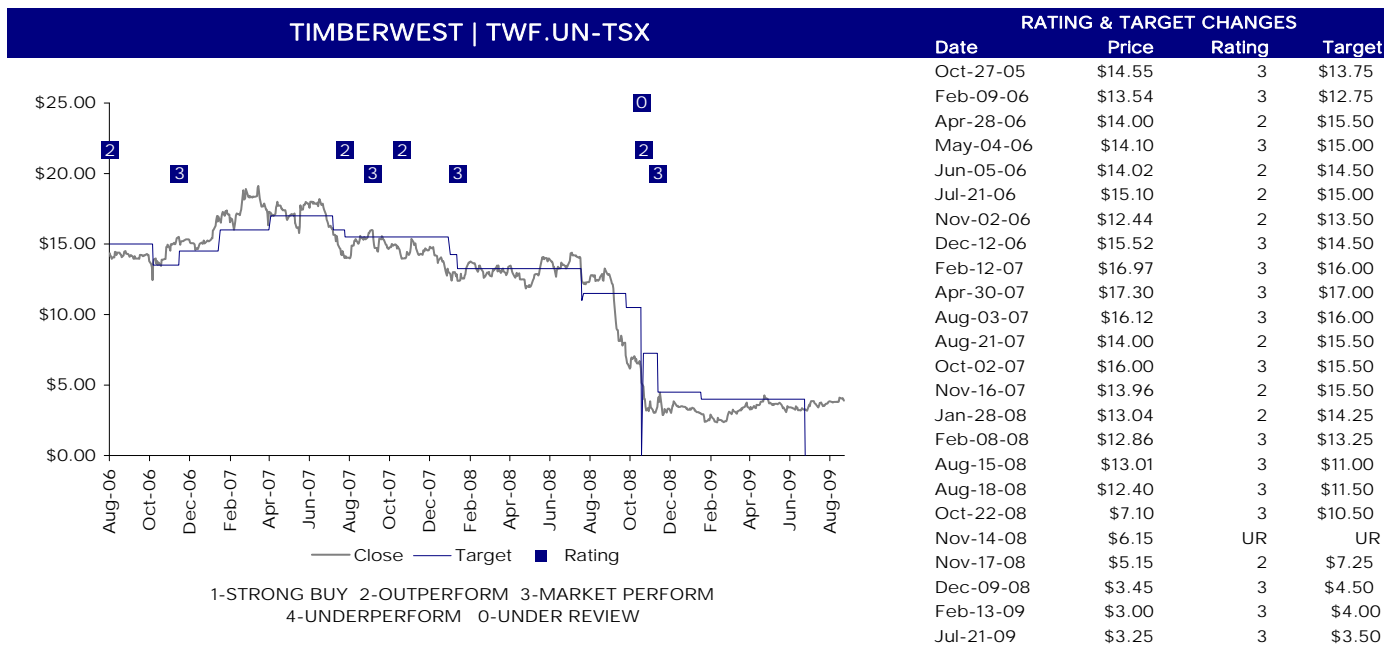
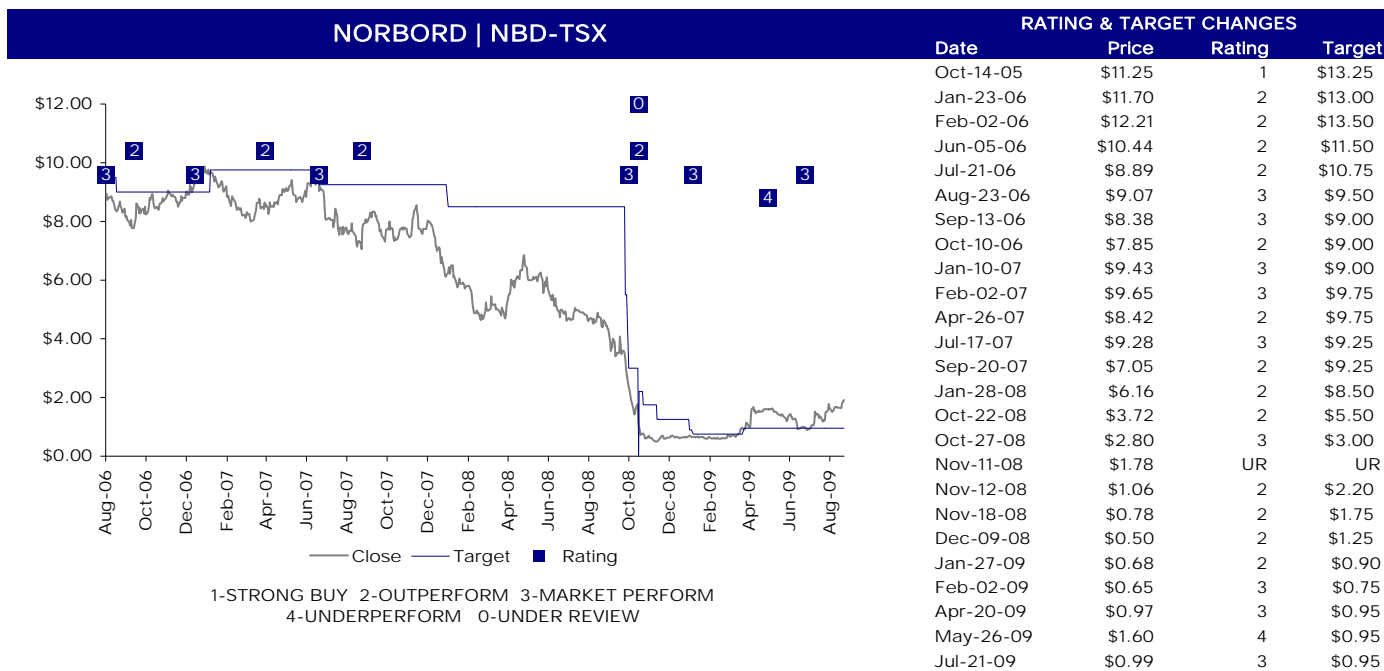
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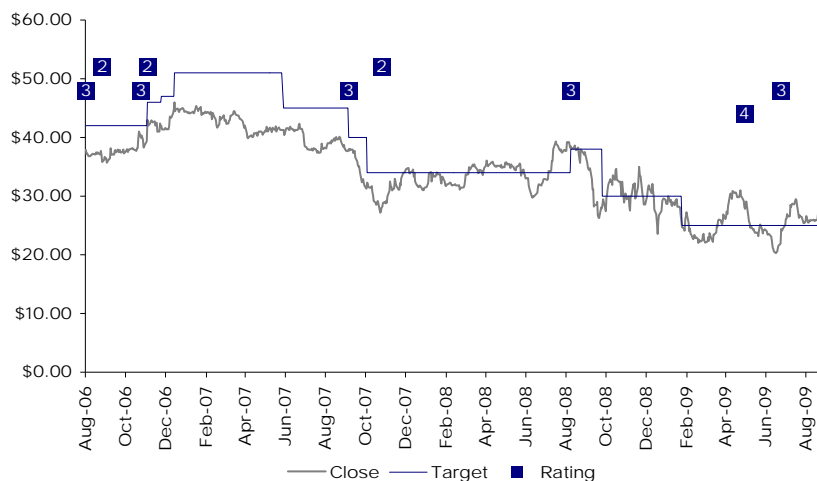
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COMPANY	SYMBOL	EXCHANGE	DISCLOSURES
Canfor	CFP	TSX	3, 6
Interfor	IFP.A	TSX	7
Norbord Inc.	NBD	TSX	7
TimberWest	TWF.UN	TSX	1a, 1b, 1e
West Fraser Timber	WFT	TSX	7





**WEST FRASER TIMBER | WFT-TSX**



1-STRONG BUY 2-OUTPERFORM 3-MARKET PERFORM  
4-UNDERPERFORM 0-UNDER REVIEW

**RATING & TARGET CHANGES**

Date	Price	Rating	Target
Dec-07-05	\$41.50	2	\$52.00
Jan-23-06	\$39.60	2	\$50.00
Mar-13-06	\$40.81	3	\$44.00
Apr-19-06	\$42.69	3	\$40.00
May-04-06	\$41.00	3	\$46.00
Jun-05-06	\$37.84	3	\$43.00
Jul-21-06	\$39.01	3	\$40.00
Aug-23-06	\$38.01	3	\$42.00
Sep-22-06	\$37.70	2	\$42.00
Nov-20-06	\$40.99	3	\$42.00
Nov-30-06	\$39.42	2	\$46.00
Dec-21-06	\$41.92	2	\$47.00
Jan-10-07	\$44.80	2	\$51.00
Jun-25-07	\$41.25	2	\$45.00
Oct-02-07	\$37.66	3	\$40.00
Oct-30-07	\$31.25	3	\$34.00
Nov-21-07	\$27.31	2	\$34.00
Sep-04-08	\$38.23	3	\$38.00
Oct-22-08	\$26.70	3	\$30.00
Feb-20-09	\$26.00	3	\$25.00
May-26-09	\$29.20	4	\$25.00
Jul-21-09	\$21.89	3	\$25.00