

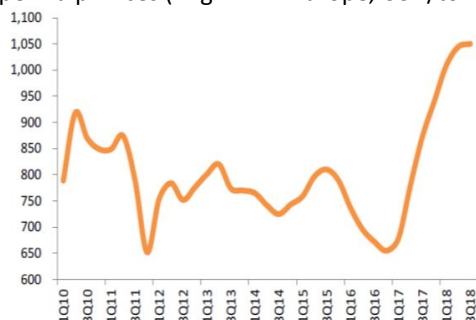
plant-a-tree fund - Forestry and Timber Info Sheet

Trends in Timberland and Wood Industry Investing

Welcome to this seventh edition of “plant-a-tree fund – Forestry and Timber Info Sheet”! More than presenting a global snapshot of the forestry and timber industry at the moment of publication, this short brief aims to present useful information on trends in timberland. These topics may cover diverse areas, such as geographies, species, markets, and price trends.

Pulp and lumber, though very much distinct segments, together paint a telling picture of the overall wood market. Over the year, lumber prices dropped just as pulp hit new highs. Chinese limits on used newsprint imports for recycled pulp boosted prices and benefited share prices of producers from Brazil to India.¹ Representing a bright spot, packaging paper and board is expected to grow at a 7.1% compounded annual growth rate between 2016 and 2024.²

Paper Pulp Prices (Avg. BHKP Europe, USD/tonne)

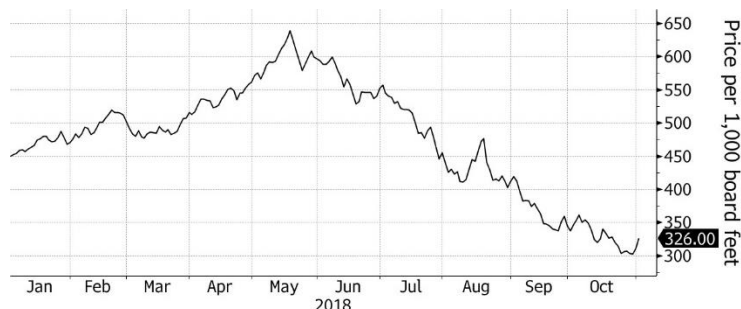


Source: Neha D. “2 stocks that stand to benefit from improved profitability of paper sector.” *Money Control*. 22 Nov 18. CARE ratings.

The lumber market outlook is less rosy. The US housing market has cooled in the face of the 30-year fixed mortgage rate nearing a seven-year high and ongoing trade regime uncertainty. New home sales fell 12% year-on-year and median home prices fell 3.1%.³ Building permits also declined while confidence among single-family homebuilders darkened.⁴ Following a rally that saw prices double from early 2016 through May 2018, futures have dropped 50% from their peak. Providing a measure of relief in the face of softening US demand, urbanization targets in China would require the construction of 150 million new homes by 2030.⁵ Nonetheless, lumber will experience headwinds in the short to medium term.

Two major transactions illustrate how the market has evolved over the course of 2018. First, the merger of Fibria and Suzano, Brazil’s largest pulp producers, exemplifies continuing industry consolidation.⁶ Financed with US\$9.2 billion in debt, the merger targets US\$2.5-3 billion in synergies and will result in the world’s biggest single pulp producer with a combined market capitalization of US\$25 billion.

Lumber Futures Chicago Mercantile Exchange



Source: Skerritt J. “Lumber Market Crash Is Probably Over, Resolute Forest Says.” *Bloomberg*. 1 Nov 18.

Consultants at McKinsey note that pulp market concentration may be reaching levels where it would be difficult for companies to find further acquisition opportunities.⁷ While low cost and proximity to fiber sources will continue to be critical to healthy margins, McKinsey sees the embrace of digital manufacturing, big data and drone monitoring as increasingly disruptive technologies. With an estimated 17% market share post-merger and proximity to Brazil’s highly productive plantation base, the Brazilian pulp behemoth is expected to consolidate its position as a low-cost global leader.

On the lumber front, CatchMark Timber Trust announced the second largest US timberland deal ever with the purchase of 1.1 million acres of Texas timberland from Campbell Global for US\$1.4 billion. Investors hope the asset will outperform through leverage to the dynamic Austin, Dallas and Houston real-estate markets.⁸ The deal underscores how institutional timberland owners increasingly rely on secondary asset sales. New Forests, a forestry advisory, forecasts US timberland transactions to double over the next five years to US\$2 billion per annum mainly due to fund liquidations.⁸ Most new timberland assets are expected to come from emerging markets.

Looking forward, wood fiber industry participants will be forced to innovate more rapidly than ever. Decarbonization, climate-related supply shocks, growth of cross laminated timber allowing increasingly taller green buildings, and biojet fuel derived from woody cellulose are all trends to watch.

Sources: 1. Skerritt J. “Global Pulp Rally Drives Up Cost of Diapers and Toilet Paper.” *Bloomberg*. 31 Jul 18. 2. Khanna D. “Why Paper Stocks Have Defied The Market Rout.” *Bloomberg*. 25 Nov 18. 3. Riquier A. “New-home sales fall to a nearly 3-year low; inventory surges as housing-market outlook darkens.” *Marketwatch*. 28 Nov 18. 4. Mutikani L. “US homebuilding rose in October on a rebound in multifamily housing projects.” *Reuters*. 20 Nov 18. 5. “Timberland Market Update.” *New Forests*. 2017. 6. Leahy J. “Brazil pulp merger creates global commodities titan.” *Financial Times*. 19 Mar 18. 7. Berg P. & Lingqvist O. “Pulp, paper, and packaging in the next decade: Transformational change.” *McKinsey*. May 2017. 8. Company news release. 14 May 18. Andrew Miller

Andrew Miller, Independent Forestry Consultant